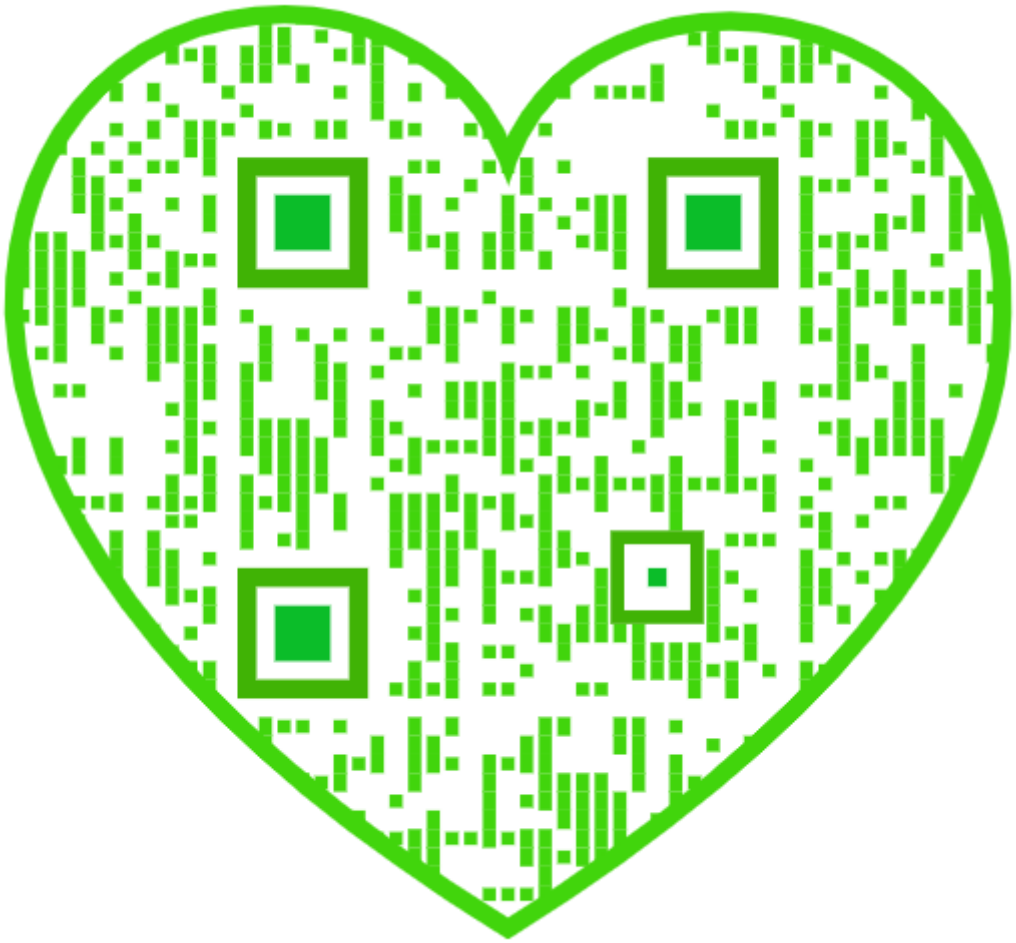

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PRACTICAL BANKING

BY

J. F. G. BAGSHAW

MEMBER OF THE INSTITUTE OF BANKERS

WITH CHAPTERS ON THE

PRINCIPLES OF CURRENCY

BY

C. F. HANNAFORD

ASSOCIATE OF THE INSTITUTE OF BANKERS;
Examiner in Banking and Currency to the London Chamber of Commerce

AND

BANK BOOK-KEEPING

BY

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Holder of Special Diploma in Money and Monetary Systems, and Banking and Credit Institutions, Trinity College, Dublin

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PREFACE

THIS work is addressed to students of banking, and all who are engaged in commercial work in which a knowledge of banking is necessary, as well as to those who are interested in commercial education, to whom some information as to banking practice should prove of interest. It will also be of service to bank officials, especially those in the early years of their careers. The work is not intended to be an advanced banking text-book, neither does it deal with the methods of any particular bank; but it gives, in as clear and simple a manner as possible, the main outlines of banking practice and the principles of currency.

The Authors have had varied practical banking experience in all its stages, and they have dealt successfully with the subjects in a thoroughly practical manner, combining clearness of definition with comprehensiveness of matter.

The book will be found extremely useful to candidates preparing for such examinations as those of the Institute of Bankers, the Royal Society of Arts, and the London Chamber of Commerce.

Mr. Bagshaw desires to acknowledge gratefully the assistance he has derived from Sykes' "Banking and Currency," a work to which he frequently referred while writing the section on Banking in the present volume.

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PRACTICAL BANKING

CHAPTER I

BANKER AND CUSTOMER

Introductory Remarks.

In spite of the rapid advances which have been made in the science of finance, there is still a great deal of misconception in the minds of many persons as to the real position occupied by a banker in the commercial world. Originally, no doubt, a banker's sole occupation was that of a man to whom money was entrusted for safe custody, with the added obligation of being compelled to repay the same, or rather an equivalent amount, or some portion thereof, when called upon to do so by the depositor or by the depositor's duly authorised agent. But this idea of the limited extent of a banker's business has long been exploded. It is recognised that a banker is a dealer, his special stock-in-trade or goods consisting of money and credit; and it is necessary to keep this fact in mind to understand the true business of banking. When money is paid into a bank, the banker buys the money and creates credit, the customer, as the depositor is called, being entitled to reclaim the amount of his deposit under certain specified conditions, and in the meantime to utilise the credit which has been created by the banker. If, on the other hand, the customer deposits with the banker instruments of credit, such as bills of exchange, promissory notes, or cheques, the banker buys the right of the customer in these instruments of credit, and again, under certain conditions, allows the customer to draw upon him for money which is represented by the amount of these instruments. The purchase by a banker of such instruments as bills of exchange or promissory notes is generally known by the name of "discounting." For this part of his business the banker usually charges a certain price, or "discount," which will be more fully noticed later on, and this charge forms one of the chief sources of his profit. But in modern times the banker is necessarily a person of large means, and he is thereby enabled to grant loans and advances to desirable

persons, and for the accommodation granted he charges interest. This last-named part of his business is the one which produces the banker's principal profit, and it is the credit created by this means that enables the business of the world to be carried on under modern conditions. Indeed, without such credit as is now existing under present banking conditions, the commercial world would be at a standstill.

The Functions of a Banker.

It is seen, then, that the three main functions of a banker are (*a*) the receipt of deposits; (*b*) the discounting of bills of exchange and promissory notes; and (*c*) the granting of loans. There are, naturally, many other kinds of business which are undertaken by a banker, but the three just named are the principal ones, and it is really round these that the business of a banker is built up and maintained.

When money is deposited at a bank, it is placed either upon current account or upon deposit account. The former is the account upon which the customer operates by drawing cheques according to his needs. Unless the balance standing to the credit of the customer falls below a fixed minimum it is not the general practice for a banker to make any charge for the accommodation granted. The latter is the account upon which the customer cannot operate except upon the terms agreed between himself and the banker. The money deposited is only obtainable after proper notice. Upon this money the banker pays interest to the customer, the amount of the interest being calculated according to circumstances. There is no fixed custom amongst bankers as to deposit accounts.

As already stated, the business of discounting bills of exchange and promissory notes will be fully explained in a future chapter, and the whole question of loans granted by bankers will be treated in detail in a chapter specially devoted to that subject.

It is sometimes asserted that there is a fourth function of a banker, viz., the issuing of notes. In former times it was the custom for a banker to issue notes in exchange for gold, and this method of business was a creation of fresh credit. The banker issued a document by which he promised to pay a certain amount of money upon demand, which was passed on by the customer.

The banker got the use of the money, and the customer traded on the banker's credit. At one time every bank in the Kingdom had the right of issuing notes. But this has become, in reality, a thing of the past. With a few exceptions, the Bank of England has now the monopoly of issuing bank notes. This is, however, a matter of such great importance that its discussion is put off to a future chapter. It may, nevertheless, be stated that in a return made in October, 1917, the note issue of banks in England other than the Bank of England was as follows—

	Total amount permitted by law to be issued.	Notes actually in circulation.
6 Private Banks	£273,076	£113,290
3 Joint Stock Banks	61,744	30,600
9 Total ..	£334,820	£143,890

The total value of the notes of the Bank of England which are in circulation averages, in normal times, about £28,000,000. When this total is compared with that of the other banks, it is clear that the Bank of England does enjoy a practical monopoly in respect of this species of business.

Deposit Accounts.

It has just been stated that when money is placed on deposit with a banker, it is either on a current or a deposit account. Naturally the current account would appear to be the one which should be dealt with first. But as a matter of convenience it will be better to discuss the latter before referring in greater detail to the former.

There are always plenty of people who are willing to deposit money with a banker, when they would not hazard a penny in speculation. Money deposited in this manner is really a form of investment, more or less permanent, and the depositors have no idea of withdrawing their money at various times as is done by means of cheques upon current accounts. Accounts of this kind are known as deposit accounts. There is no necessity for a person to have a current account with a bank in order to place his money on deposit. Banks advertise in certain quarters that they are willing to accept sums of money upon certain terms and under certain conditions. If the depositor wishes at any time to withdraw

his money he must give a stipulated notice to the bank. The length of notice varies in different parts of the country, the common rule being to require at least seven days. But a banker may make any special terms he chooses. In return for the use of the money interest is paid by the banker. The rate varies according to circumstances, especially with respect to the length of notice, a higher rate being payable when the notice requisite for withdrawal is a longish period. In London, however, in the case of the customary seven days' notice, it is the usual practice to pay a rate of interest which varies with the rate of discount of the Bank of England. The deposit rate is generally 1½ per cent. below the official minimum discount rate, except when the latter is very low, and then the difference is 1 per cent.

Deposit Receipt.

A receipt is usually given when money is placed on deposit, and the terms of the contract are generally stated upon it, namely, the conditions upon which the money is received and the length of notice to be given in case of withdrawal. A receipt is in the following form—

" Not transferable.
Repayable on 7 days' notice.

£500

Received of John Jones the sum of five hundred pounds to be placed on deposit account.

For the X. Y. Bank
James Smith
Manager.

Entered ."

Whenever it is desired to withdraw money, the deposit receipt must be produced, and its production is generally required when the interest due upon the deposit becomes due. For the purpose of securing itself the bank should always take a specimen of the depositor's signature, as if a payment is made under a false or forged signature the banker may be called upon to pay the money a second time. It is imperative that a depositor who loses his deposit receipt should give information of the fact to the bank at the earliest opportunity. Deposit receipts are not transferable documents, though they may be made the subject of a death-bed gift if endorsed by the depositor. When issued to two or more

persons, care must be taken to carry out their instructions as to withdrawal. These should be endorsed on the receipt. The executor of a deceased joint depositor may give notice to the bank not to pay.

Immense sums of money are left with the various banks on deposit accounts. The banker derives his profit out of the transaction by lending the money at a higher rate of interest than that which he pays to the depositor.

Current Accounts.

The other accounts opened at banks are current or running accounts. If we leave out of question the insufficiency of the coined money which is in existence, it is impossible to conceive how business could be carried on in modern times without the convenience of current accounts at a bank. Thousands upon thousands of payments have to be made every day, and of course there are corresponding numbers of receipts for the same. It is for these payments and receipts that banks are so absolutely essential to a mercantile community.

Accounts Opened by Bankers.

When a stranger desires to open an account, a banker will usually ask for an introduction from some person known to the bank. If the introduction is not given personally, the banker will require a letter signed by the introducer—a business or address card is not sufficient. The banker will, of course, communicate with the introducer, to ascertain privately all that is known about the introduced person. If the proposed customer is unable to obtain an introduction from someone already known to the bank, two satisfactory references will usually be required. The custom varies in different banks with regard to introductions and references; but a banker is always very careful with whom he opens an account, since the possession of a cheque book by an unscrupulous person may result in the perpetration of frauds on a large scale.

Signature Book.

A prospective customer is required to enter his name in the signature book of the bank. This is a book which is kept for reference in case of necessity, as a banker is bound to know the signature of his customer, and is under an obligation to honour all documents bearing the same, provided everything else is in order.

The signature book should always be referred to in case of extensive transactions. If the banker pays under the forged signature of his customer, it is the banker and not the customer who is the loser. Owing to changes in handwriting a prudent banker should get his customers to sign their names as specimens at more or less lengthy intervals.

Personal Accounts.

If a customer has several accounts at a bank, he may elect to which account any payment in may be placed. Should, however, he give no indication of his intention in this respect, the banker may place such payments in to whichever account he pleases. The balance at the credit of a partner's private account cannot be retained by the banker against a sum due from such partner's firm, unless a signed authority to that effect is sent to the banker by the partner.

Partnership Accounts.

Any person who by word or deed leads others to believe that he is a partner in a firm, or knowingly allows such an assertion to be made openly, is liable on any contract entered into with the firm upon the security of his name, even though actually he may not be a partner at all. A banker, therefore, in all cases, endeavours to obtain an acknowledgment in writing of the liability of every partner in the firm whose account he is keeping. When the account is opened, each partner will be required to sign the firm's name in the banker's " signature book," and then it will be necessary for each partner to write his personal signature, placing after it the word " partner."

A partnership may not consist of more than ten partners if it is formed to carry on banking business, or of more than twenty persons in any other class of undertaking when the object is the acquisition of gain. Firms having a larger number of partners are generally controlled by the Joint-Stock Companies Acts. It may be mentioned that there are at the present time only a few private banking partnerships in this country; one example being the eminent banking house of Messrs. Child & Co., of London. The major portion of the banking business of the country is now in the hands of the great joint-stock banks.

A banker is not bound to make himself acquainted with the terms

of a partnership deed, should there be one. Unfortunately, many partnerships are merely verbal arrangements; and much trouble would undoubtedly be avoided if all partnerships were compelled to be evidenced by deed or writing. Should, however, a firm desire a loan, the banker will at once require to see the partnership deed.

Every partner in a trading firm, unless special arrangements have been entered into by them all with the banker, may draw and endorse cheques, accept and endorse bills of exchange, and make and endorse promissory notes. Each partner may also pledge or sell the firm's goods, give discharges for debts, and bind the firm (as well as his partners) by any act, provided it is within the scope of the business of the firm. He cannot, however, execute a deed, which must be done by all the partners.

At the opening of the account of a partnership, the banker will require particulars as to the firm's capital, the proportion in which it is contributed by the partners, and—if possible—the extent of their private means. The style of the firm must not be varied without proper notice being given to the banker, who will not pay a cheque, the signature upon which does not coincide with that in his signature book. Thus, if Messrs. " Henry Smith & Co." opened an account in that name, and then consequent upon, say, a son being taken into partnership, the firm's cheques were signed " Henry Smith, Son & Co.," and no notice of this had been given to the banker, such cheques would not be paid. The private account of a partner has no connection with that of his firm, and any credit balance on such private account cannot be applied by the banker in reduction of an overdraft on the firm's account. The death or bankruptcy of a partner affects only his private account, as far as the banker is concerned.

To bind a firm, transactions must be in the interests of the partnership, and a banker, therefore, will usually not accept partnership cheques or bills of exchange in reduction of the overdraft on a partner's private account unless the whole transaction is in order. Either the death or bankruptcy of a partner releases his estate from liability in respect of any contract made by the firm after the occurrence of either of those events. A retiring partner must, however, inform the creditors of the firm of his withdrawal in order to escape liability. Every partner in a firm is liable to the full extent of his

means in respect of all debts incurred by the firm in the ordinary course of business. Should, however, a partner make improper use of trust moneys, the other partners are not liable for any consequent loss, provided they did not and could not reasonably be expected to know of the breach of the trust.

When, for any reason, a dissolution of partnership takes place, the banker will stop the firm's account, and—if the business is being continued—will request the continuing partners to authorise him to open a new account, and to pass all future transactions through it. The banker will also require instructions to charge to this new account any outstanding cheques or charges. A new account cannot be opened unless the above authority is given, but the old account may be stopped as stated.

When a partner retires from a business (as for instance, on account of old age), the banker will ascertain what amount of capital will be withdrawn, and when and how it is to be paid off. He will consider whether the firm is strong enough to withstand the withdrawal; as although repayment of capital to a retiring partner may be, and often is, spread over some years, what was once capital available for the purposes of the firm's business has now become a debt instead, and ranks with the ordinary trade creditors. If new partners are introduced, and a banker decides to accept the new firm as taking over the liabilities of the old firm, the incoming partners will be required to give an undertaking that they will accept such liability. Therefore, the partners will be requested by the banker to sign an order to transfer the account of the old firm to the new firm, and to debit the latter with all outstanding cheques, etc.

Accounts of Executors and Trustees.

Owing to the responsibility which attaches to the knowledge of the existence of a trust, a banker prefers to open an account with individuals rather than with executors and trustees as such. Arrangements are made at the time the account is opened as to who is to sign cheques or other instruments; but if there is no such arrangement, any one executor may deal with the funds of the estate; but in the case of trustees, all must unite on every transaction Therefore, cheques must be signed (or endorsed) by all trustees. A banker is not responsible in the case of misapplication of trust funds if he knows nothing about the trust, so that if an executor

was to draw upon the moneys of the estate and place the proceeds to the credit of his private account, the banker would incur no liability, provided such private account was not overdrawn.

Before transferring the balance standing to the credit of a deceased customer to his legal representatives, the banker will require to see the probate of the will (or letters of administration if the customer died without having made a will) from which an extract will be made in the banker's ledger upon the account of the deceased, giving the names and addresses of the duly appointed executors. Should the executors wish to open an account, the banker takes specimens of their signatures, and—if the account of the testator is not overdrawn—transfers the credit balance into their names. If, however, the account of the testator is overdrawn, the banker will claim against the estate for the amount. Sometimes the representatives named in a will may require an advance before probate is granted, to enable them to make various payments of an immediate character. In such cases a banker will sometimes advance the money, but only on the assurance of reputable solicitors, who will be required to produce the will showing the appointment of the executors; and the loan will then be made against the signatures of all the executors. It may be mentioned that loans of this description would usually be granted in country districts, where a banker is generally in closer touch with his clients, and has a more intimate knowledge of their private affairs, than is the case in large towns.

A banker has no claim upon a trust account (which would be opened in the names of all the trustees as individuals) against an overdraft on any one trustee's private account; neither is a banker in any way responsible for the disbursements of the trustees, although he would be held liable if a sum were transferred from a trust account to repay an overdraft on a trustee's private account.

Joint Accounts.

If two or more persons, not being partners, open a banking account in their joint names, on the death of one of them the balance belongs to the survivor or survivors. It often happens when accounts of this nature are opened, that the banker requires the parties to sign a form stating whether or not, upon the death of either, the balance shall go to the survivor. If, however, no instructions on this point are given, the effect is as above stated. Before a

survivor or survivors in a joint account may deal with any balance, the banker will require proof of death of the deceased person to be exhibited; as, for instance, a death or a burial certificate. Joint accounts are usually so arranged that, upon the death of one person, the balance becomes the property of the survivor, this being especially the case where an account is opened in the names of husband and wife. If the contrary is intended, however, the banker will take such instructions on the form used when the account is opened, and will note the fact in the ledger account.

Unless special instructions are given as to who may sign cheques, all persons in a joint account must do so, and this applies equally to an account in the name of husband and wife. If any one or two parties wish to operate on a joint account, then the banker will require written instructions signed by all to that effect.

Companies' Accounts.

When a Company proposes to open an account, the banker will require production of the certificate of incorporation, and a copy of the Memorandum and Articles of Association. When he has got these documents, he can learn what the regulations are as to the opening of a banking account, the way in which such account is to be operated upon, and what powers—if any—the Company has to borrow money or overdraw its account. A resolution appointing the bankers should be passed by the directors of the Company, and a copy signed by the Chairman and countersigned by the Secretary (and sealed with the official seal) will be required by the bankers as authority for them to deal with the Company's funds.

Minors' Accounts.

These accounts are not at all desirable from a banker's point of view, who, while he may safely honour the cheques drawn by a minor on his current account, cannot recover an overdraft. A minor may act as an agent and sign cheques and bills on behalf of his principal, who, however, is only bound to the extent of the powers conferred by the authority appointing such agent.

Accounts of Married Women.

A woman married since 1st January, 1883, keeps as her own all property which belonged to her as at that date, and since acquired

by her; and at whatever date she was married, she retains all property acquired by, or reverting to her, since the above date. A married woman can open a banking account in her own name, and deal with her own property or money without the consent of her husband; and, if she is carrying on a trade or business, whether separately from her husband or not, she can be made a bankrupt. She may act as a partner in a business, and can bind the partnership in that capacity. A balance standing to the credit of a single woman, of course, remains her own property after she is married. On production of her marriage certificate, the banker will transfer the balance into her married name, and she will then draw cheques in that name. When a widow marries again, her account is transferred in the same manner as above described. A banker has no claim upon any balance that may be standing to the credit of a married woman's account, should her husband's account be overdrawn, and *vice versâ*.

Lunatic Customer.

A banker has no legal authority to refuse payment of the cheques of a lunatic customer, until such customer has been officially declared to be a lunatic, or a receiver of his estate has been appointed. If, however, a person—usually a relative—desires to intervene and is willing to furnish a statutory declaration by two medical men declaring that the customer is of unsound mind, and also lodges a guarantee, the legal authority may be dispensed with by the banker in some cases.

Agents' Accounts.

When a customer empowers another to operate on his account, he will be required to give the banker written instructions to honour the agent's signature, and such authority should specify clearly, and in full detail, the extent of such agent's power. If it is desired by the customer that the agent shall have power to operate on an overdrawn account or obtain advances from the banker, this must be stated in the letter of authority, otherwise the customer will not be liable.

In some cases an agent is authorised to sign the firm's name, but usually is empowered to sign *per procurationem*, as—

p.p. John Jones & Co.,
Thomas Smith.

If an agent, without having the necessary authority, endorses uncrossed cheques made payable to his principal and pays them in to the credit of his (the agent's) private account, the principal can recover from the banker the amount of such cheques.

An agent may not delegate his powers to any other person, unless the instrument appointing him expressly permits of that being done. So that a cheque drawn

per pro. The Coal Mine Co., Limited
per pro. George Wilson, Secretary,
John Robinson

would not be paid, unless the paying banker was quite satisfied that John Robinson had full power to draw cheques on behalf of the secretary.

Authorities of principals in favour of their agents are cancelled by the death, bankruptcy, or insanity of the principal, but such insanity must be officially declared. The letter sent by a customer to a bank authorising the honouring of an agent's signature does not require a revenue stamp, provided such letter embodies no agreement.

When persons are going abroad for a considerable time, they often appoint (by an instrument called a Power of Attorney) someone to manage their business affairs; as, for example, drawing and endorsing cheques and bills of exchange, accepting bills of exchange, and generally to deal with the account of the absent person as he could himself if he were present. The individual appointed is called an Attorney, who usually signs thus—

Edward Davis,
By his Attorney,
Evan Jones.

The Attorney may, however, sign his principal's name only, but the above is the general method.

Bankrupts' Accounts.

As soon as a banker knows that a customer has committed an act of bankruptcy, or receives notice of such bankruptcy, he will at once stop the account.

Acts of bankruptcy are, shortly, as under—

(*a*) Making an assignment of property in trust for creditors generally.

(*b*) Making a fraudulent assignment of property or any part thereof.

(*c*) Making a conveyance which amounts to a fraudulent preference.

(*d*) Having, with intent to defeat or delay creditors, departed out of England ; or being out, remained out.

(*e*) Suffered execution on goods, after they have been either sold or held by the sheriff for twenty-one days.

(*f*) Filed a declaration of inability to pay debts, or presented a Bankruptcy Petition against himself.

(*g*) Given notice to any creditor of suspension of payment.

(*h*) Neglected to pay or secure a judgment debt after service of a bankruptcy notice.

Upon receiving notice of an act of bankruptcy having been committed by a customer, the position of the banker is this—he must not honour any cheques drawn by the customer which are presented to him for payment. It is immaterial what is the date of the cheques, that is, whether they were drawn before or after the act of bankruptcy. The customer's business has, as it were, come to a complete standstill, and his property has become vested in an independent person for the benefit of his creditors. If a banker pays out any of the money standing to the credit of a customer after receiving notice of the act of bankruptcy, he has no claim upon the estate in the subsequent proceedings. The entire loss falls upon him.

Paying-in Book.

When a banker has decided to accept a person as a customer, for the purpose of operating upon a current account, he generally supplies him with three books—a paying-in book, a cheque book, and a pass-book. The cheque book will be referred to in the next chapter in detail. The other two books are briefly noticed here, although the first will be referred to again at a later stage.

The paying-in book which is usually supplied by a bank consists of a number of slips, with counterfoils, upon which are entered the amounts paid into the bank on any particular occasion, and the manner in which the amounts are made up, namely, coin, notes, cheques, postal orders, etc. The slips are kept by the bank, and the counterfoils are retained by the customer. Whenever a

payment in is made, care should be taken by the customer to see that the counterfoil is initialled by the receiving cashier. These counterfoils are sometimes useful for reference when an examination of the pass-book is made.

The Pass-Book.

This is the book which is used for the purpose of checking the accounts of a customer. In it are entered the amounts paid into and

CASH

Dr. CASH												
19...				£	s.	d.	£	s.	d.	£	s.	d.
		Forward	..	71	2	0				1502	3	7
June 15.	To	C. Bailey ..	.. ..	1	2	1	21	3	4			
„ „	„	E. Austin	.. ..				81	2	3			
										102	5	7
„ 17.	„	C. Williams	.. ..							31	2	7
„ 21.	„	S. Meredith	.. ..	1	11	1	21	7	4			
„ 21.	„	J. Bowen	.. ..				19	1	1			
										40	8	5
„ 23.	„	C. Kennedy	.. ..							19	1	0
„ 26.	„	R. Freeman	.. ..							70	0	0
„ 29.	„	C. Barton	.. ..	2	17	0	41	2	7			
„ 29.	„	H. Beard ..	.. ..				13	7	0			
										54	9	7
„ 30.	„	E. Weston	.. ..							31	7	0
				£76	12	2				£1850	17	9
July 1.	To	Balance brought down	..							305	14	4

PASS

The Bank of

Dr. In Account with												
19...										£	s.	d.
				Amount						8002	3	7
June 15.	To	Cash	.. ..	..	..	..	..	..	..	102	5	7
„ 17.	„	„	.. ..	..	..	..	..	..	..	31	2	7
„ 21.	„	„	.. ..	..	..	..	..	..	..	40	8	5
„ 23.	„	„	.. ..	..	..	..	..	..	..	19	1	0
„ 26.	„	„	.. ..	..	..	..	..	..	..	70	0	0
										£8265	1	2
July 1.	To	Balance	.. ..	..	..	..	..	..	..	275	11	11

withdrawn from the bank. The entries are, in fact, copies of those contained in the bank ledger, and they are, *primâ facie*, binding upon the banker, though he is not precluded from showing that such entries have been made by mistake, unless, indeed, the customer has acted upon the faith of them. Similarly a customer may be bound by the entries, although erroneous, if he fails to discover them in due course. It is for the purpose of avoiding serious mistakes that pass-books should be made up at least once a month.

BOOK.

		CONTRA.						*Cr.*		
			£	s.	d.	£	s.	d.	£	s.	d.
19...		Forward ..	29	16	0				807	10	1
June 15.	By	R. Wilson	1	11	2				71	2	7
,, 16.	,,	R. Randall							80	2	1
,, 18.	,,	J. Jones & Co.				17	10	0			
		do. April A/c ..				16	2	1			
									33	12	1
,, 20.	,,	T. Robinson		16	0				18	7	1
,, 22.	,,	A. Kendall	7	2	1				191	3	4
,, 22.	,,	J. Brown & Son ..							14	1	7
,, 24.	,,	F. Flynn	4	2	0				71	4	4
,, 25.	,,	A. Lyon							31	2	6
,, 26.	,,	T. Bradley							81	3	7
,, 28.	,,	C. Baxter	1	0	6				21	3	1
,, 30.	,,	E. Seton & Co.	1	0	6				21	4	1
,, 30.	,,	C. Pearce							13	7	0
,, 30.	,,	Salaries							90	0	0
,, 30.	,,	Balance carried down ..							305	14	4
			£45	8	3				£1850	17	9

BOOK.

Essex, Ltd.

Messrs. Riley & Waters.

				Cr.		
				£	s.	d.
19...		Amount		7307	10	1
June 16.	By	Wilson		71	2	7
,, 18.	,,	Randall		80	2	1
,, 19.	,,	Jones		33	12	1
,, 23.	,,	Kendall		191	3	4
,, 24.	,,	Robinson		18	7	1
,, 25.	,,	Brown		14	1	7
,, 25.	,,	Flynn		71	4	4
,, 26.	,,	Lyon		31	2	6
,, 27.	,,	Bradley		81	3	7
,, 30.	,,	Salaries		90	0	0
,, 30.	,,	Balance		275	11	11
				£8265	1	2

When a merchant or trader makes all his payments by cheque, the customer will find it convenient to compare the entries in the pass-book with his Cash Book, since they ought to be in complete agreement.

Some bankers head their pass-books as under—

THE BANK OF ESSEX, LTD.

In Account with

MESSRS. JOHN JONES & CO.

Dr.			£	s.	d.					*Cr.*		
19...						19...			£	s.	d.
July	1.	To Balance	500	0	0	July	3.	By Selves	20	0	0
,,	4.	,, Cash	100	0	0						

Whilst others head theirs as follows—

MESSRS. JOHN JONES & CO.

In Account with

THE BANK OF ESSEX, LTD.

Dr.			£	s.	d.					*Cr.*		
19...						19...			£	s.	d.
July	3.	To Selves	20	0	0	July	1.	By Balance	500	0	0
						,,	4.	,, Cash	100	0	0

In the first example, the bank, being in account with the customer, debits itself with cash paid in, and credits itself with cheques drawn by the customer.

In the second form, the customer is in account with the bank, so that sums paid in are credited, and cheques drawn are debited. The first ruling is the one generally in use at the present time.

The balance as shown by the Cash Book of a merchant or a firm ought, in point of fact, to agree with that as shown by the pass-book. Any difference between the two balances should be accounted for by country cheques paid in for collection and not yet credited, and cheques given out by the customer, but not yet presented at his bankers for payment. A merchant's cashier should, when bringing down the balance in the Cash Book—which is usually done monthly—enter therein a "Reconciliation Statement," placing the balance as shown by the pass-book first, adding thereto the amount of country cheques paid in for collection but not yet credited in the pass-book, and deducting the amounts of various cheques given out, but which have not yet been presented at the bank, and consequently are not entered in the pass-book. It may be mentioned that any entries appearing in the pass-book for interest on loans, cheque

books, etc., should be entered in the Cash Book on the credit side, such entries being duly posted by the book-keeper to the appropriate accounts in the private ledger.

The method of reconciling the pass-book and Cash Book balances, is clearly shown by the following example—

RECONCILIATION STATEMENT.

	£ s. d.	£ s. d.
Balance as per Pass Book		275 11 11
Add Cheques paid in but not cleared		
C. Barton	41 2 7	
H. Beard	13 7 0	
E. Weston	31 7 0	
		85 16 7
		£361 8 6
Deduct Cheques paid out but not debited		
C. Baxter	21 3 1	
E. Seton & Co.	21 4 1	
C. Pearce	13 7 0	
		55 14 2
Balance as per Cash Book		£305 14 4

The law with regard to the effect of entries in a pass-book is in a most unsatisfactory state from a banker's point of view. If a mistake has been made by a banker in a pass-book entry, he is not precluded from rectifying such error ; but should the customer, acting on the faith of such an entry alter his position, as, for example, by drawing a cheque for an amount which stands to his credit according to the banker's entry, the banker is *primâ facie* liable to pay the amount ; but the true extent of the liability apparently depends upon the circumstances of the case—a most unfortunate and unsatisfactory statement of the true legal position. On the other hand, where a customer has acted in such a manner as to have been guilty of negligence as regards the account, and as a result the banker's position has been adversely affected, the decided cases seem to make it clear that the banker is liable for consequences arising out of such negligence. In view of the unsatisfactory state of affairs, and of the importance of having the pass-books carefully and correctly written up, a banker should give particular attention to pass-books which have not been brought into the bank for some time ; and when pass-books are allowed by customers to remain in a bank for a long period, it is advisable to hand them out as opportunity offers. Every banker should aim at having as free a circulation of pass-books as possible.

Some banks have a system by which their customers verify and agree the balance as shown by the pass-book, thus placing matters on a satisfactory basis. At the end of every half-year (or quarter) the banker, when sending the customer's pass-book will also forward a printed form on the following lines—

The Bank of Essex, Ltd.
100 Lombard Street, London, E.C.
19...

Dear Sir (or Madam),

I beg to advise you that the balance of your account with this Bank as on 30th ult. was £450 10s. 7d. in your favour. After you have examined your pass-book, I shall feel obliged if you will kindly sign the form at the foot hereof and return it to me, when your paid cheques will be delivered to you. If your pass-book has not been balanced, kindly forward it to the Bank at your earliest convenience.

Yours faithfully,
(Signed) JOHN BROWN,
Manager.

To the Bank of Essex, Ltd.,
100 Lombard Street, London, E.C.

I acknowledge that I have examined my banking account up to and including 30th June, 19.., and that the balance of £450 10s. 7d. in my favour is correct.

Yours faithfully,

Paid cheques are the property of the drawer, but the banker before delivering them up to the customer is entitled to take a receipt. Some banks retain the paid cheques, whilst others surrender them on the customer signing a declaration that the balance as shown by the pass-book is correct (see specimen letter above). It is the usual custom of London bankers, however, to place the paid cheques in the pocket of the pass-book, so that the customer receives them on each occasion that the book is made up and handed to him.

The Legal Position.

In the present chapter, so far, it has been taken for granted that the whole position to be discussed is the simple relationship of banker and customer as to opening an account and dealing in moneys deposited by the customer with the banker. In order that the various chapters which follow may be clearly understood,

there are a few points connected with the legal position of the parties which ought to be thoroughly well understood as a preliminary.

Debtor and Creditor. The relationship between the banker and his customer—and a customer may be defined as any person who has some sort of an account, current or deposit, with the bank, or who is in some similar relationship towards him—is that of debtor and creditor. The banker is not a trustee of the moneys deposited with him by his customer, otherwise he would have to account for all profits made by him in the course of his business when using the moneys of his customer. The banker is under an obligation to pay what is due by him to his customer according to the special terms of the contract entered into between them. To impose upon a banker the responsibility of trusteeship would make modern banking an impossibility.

Statute of Limitations. It follows naturally from the fact that the relationship of banker and customer is that of debtor and creditor, that the Statute of Limitations applies to their contracts as well as to any other. No creditor can claim a debt from the person who owes it after six years have elapsed since the debt became due, unless, in the meantime, there has been some acknowledgment in writing by the debtor of indebtedness, or unless there has been some payment on account, or for interest. Therefore, if a customer leaves a sum of money with a banker for six years and has never operated upon it in the meantime, the customer cannot legally claim the money. It is not the custom, however, of English bankers to assert their legal rights. It is their general practice not to inquire for claimants to funds which have thus become legally their own, but at the same time they never insist upon their strict rights under the Statute of Limitations as against claimants who make good their claims.

Freedom of Contract. Although the practice of banking is well established, and the lines followed by the principal bankers are fairly uniform, there is nothing to prevent a banker entering into a special contract with his customer; and in the absence of fraud, misrepresentation, or duress, the terms of the contract will be held binding upon the customer.

CHAPTER II

CHEQUES

Introductory Remarks.

It has been stated that when a customer opens an account with a banker, he is generally supplied with three books, (1) the paying-in book, which is to be a record of the various amounts paid into the bank; (2) the pass-book, which is to be a record of all the transactions in connection with the current account between the banker and the customer; and (3) the cheque book, which is a book consisting of slips (with counterfoils), upon which the customer writes out his orders for payment addressed to the banker. Each bank has a distinctive cheque book, and it is desirable that a customer should use no form other than that which is supplied by the banker. It is quite legal for a customer to use an ordinary sheet of paper on which to write out a cheque; but such a course gives unnecessary trouble to the banker. If he does so, the customer must affix a penny stamp (or two halfpenny ones) [1] and he must cancel the stamp or stamps by writing his signature across. It is the stamp which often creates a difficulty. It is a common fallacy that if a document, which purports to be a cheque, is issued unstamped, any holder may affix an adhesive stamp and afterwards cancel it. No person, other than the drawer, is entitled to affix and cancel a stamp except the banker to whom it is presented for payment. The latter may do so and then debit his customer with the cost of the stamp.

Form of Cheques.

The various banks issue cheque books, and the general form of the documents does not differ much from the following—

LONDON,

20th August, 19...

THE BANK OF ESSEX, LIMITED [1]

100 Lombard Street, London, E.C.

PAY *Thomas Williams* or Order the sum

of *Forty pounds seven shillings.*

£40 7 0 EVAN DAVIS.

1d. Stamp.

[1] On cheques drawn on or after the 1st September, 1918, the stamp duty is 2d.

In this cheque Evan Davis is the "drawer," the Bank of Essex, Ltd., is the "drawee," and Thomas Williams is the "payee." When the latter places his name on the back of the cheque he is termed the "endorser." In the above example, as the cheque is one to "order," Thomas Williams must endorse it (*i.e.*, sign his name on the back) before receiving the cash; and if the cheque was crossed, he would still have to endorse it before paying it in to his account. All order cheques, therefore, must be endorsed by the payee. In the case of bearer cheques, however, no endorsement is necessary; so that a cheque drawn as under will not require the endorsement of Thomas Williams.

LONDON,

20th August, 19...

THE BANK OF ESSEX, LIMITED,
100 Lombard Street, London, E.C.

1d. Stamp.

PAY *Thomas Williams*_____or Bearer
the sum of *Twenty-five pounds eight shillings.*
£25 8 0. EVAN DAVIS.

It follows that bearer cheques—especially if uncrossed—are not without a considerable element of danger; as if one was lost, the finder could, if he wished, obtain the cash merely by handing the cheque over the bank counter, provided, of course, that the customer had not previously communicated with his banker, requesting him to stop payment of the lost cheque. It may be noted that the Local Government Board will not sanction any cheques under its control to be drawn payable to bearer.

Cheques are payable either to "order" or "bearer," as we have already noticed; but if neither word is given after the payee's name, then the cheque is taken to be one to "order" (provided there are no words prohibiting transfer), and consequently, the payee must endorse. Should the payee of a cheque be a fictitious or non-existing person (*e.g.*, Robinson Crusoe, or any deceased person), then such a cheque *may* be treated as payable to bearer. Also cheques drawn in which the payee is "Rent," "Goods," "Wages," "Expenses," or anything similar, are often considered as payable to bearer, and as such require no endorsement; but it appears that bankers now draw a distinction between "fictitious"

and "impersonal" payees, and demand that when a cheque is drawn in any of the above forms (*i.e.*, payable to "Rent," "Goods," "Wages," "Expenses," etc.) it should be considered as a cheque drawn to the order of the drawer, requiring, as such, the endorsement of the drawer.

Either the payee or the drawer may alter a cheque from bearer to order by ruling out the former, and writing in the latter word; but only the drawer may alter an order cheque to bearer. All alterations in a cheque must bear the initials or signature of the drawer, and if there is more than one drawer (as for example in a joint account) then all should initial or sign any alteration. It is the custom of many banks to accept the initials only of their customers as confirmation of a material alteration in a cheque; although it should be noted that for several years the Council of the Institute of Bankers has pointed out the risk of accepting initials instead of a signature in this connection.

Date of Cheques.

If a cheque is undated, the Bills of Exchange Act of 1882 permits any holder to fill in what he believes to be the true date; but no alteration in a date can be allowed unless bearing the initials of the drawer. A cheque may be dated on a Sunday, and may also be post-dated, that is to say, may bear a date subsequent to the day on which it was actually issued. A banker who inadvertently pays a post-dated cheque incurs no penalty, but he cannot debit the amount to his customer's account until the actual date on the cheque arrives. When post-dated cheques are presented to a banker they are returned unpaid marked "post-dated."

Endorsements.

A cheque originally payable to order may become payable to bearer by endorsement. Turning to the example of the order cheque for £40 7s. 0d. we have seen that it will be necessary for Thomas Williams to endorse it, and when this is done the cheque is then payable to bearer. Immediately, therefore, Thomas Williams endorses the cheque, it may be passed on from hand to hand by mere delivery, and, being payable to bearer, no further endorsements are required. When Thomas Williams signs his name on the back of the cheque, it is said to be "endorsed in blank."

Either the payee or any subsequent holder may convert a blank

endorsement into what is known as a " special endorsement " or an endorsement in full. In the above named order cheque, we will assume that Thomas Williams has endorsed in blank, and then given the cheque—by mere delivery as it is now payable to bearer—to George Johnson, who in his turn transfers it (for value) to Edward Wilson. Now if Johnson wishes to obtain the endorsement of Wilson, the former writes above the blank endorsement of Williams,

Pay to Edward Wilson or Order

and Wilson must endorse the cheque before he can receive the cash, or obtain credit for the amount through his banking account, according to whether the cheque is uncrossed or crossed. A transferee should see that an order cheque is duly endorsed by the transferror, in order that the title of the former may be completed; for, without the latter's endorsement, the transferee would have to restore the cheque to the true owner, if the transferror's title was afterwards found to be defective. Provided, however, the transferee takes the cheque by the endorsement of the transferror, the former has a good title to the instrument, unless it is tainted with forgery.

Occasionally a cheque is endorsed as under—

Pay John Brown only
THOMAS WILLIAMS.

This is what is known as a "restrictive endorsement," and there is a clear indication that a further transfer of the cheque is prohibited.

Any person who endorses a cheque makes himself liable for its amount to a subsequent endorser, should it be dishonoured; but liability may be practically negatived by placing the words " sans recours," or the more usual form " without recourse," after the endorser's signature thus—

THOMAS WILLIAMS,
Without recourse.

Endorsements of this description do not often occur, and they are used generally when the endorser acts as an agent in passing a cheque from the endorser prior to him, to the person to whom he (the agent) endorses it.

The above-mentioned methods of endorsement may be conveniently summarised as under, namely—

Endorsement in blank	THOMAS WILLIAMS.
Special endorsement, or an endorsement in full	Pay to Edward Wilson or Order THOMAS WILLIAMS.
Restrictive endorsement	Pay John Brown only THOMAS WILLIAMS.
Qualified endorsement	THOMAS WILLIAMS Without recourse.

If a cheque is payable to the order of two or more persons who are not partners, all of them must endorse. As regards dividend warrants in favour of joint payees, it is customary for the paying banker to require one signature only in discharge of the warrant. If the payee's name is wrongly spelled on a cheque, he should endorse it using the same spelling, and then write his correct signature underneath.

Endorsements in pencil are not illegal, but a banker would not pass them as they might become illegible.

Sometimes cheques are drawn in the following manner—

Pay { Richard Bailey_____or Order
A/c EDWARD PEARCE

The payee only will be required to endorse such a cheque, and no other words should follow his signature.

No titles of courtesy should be given in an endorsement, *e.g.*, a cheque made payable to Miss Elizabeth Hunter and endorsed "Miss Elizabeth Hunter" would not be paid, as this is no signature. But a cheque payable to the order of "Captain John Baxter" would be paid if endorsed—

JOHN BAXTER,
Captain.

Similarly a cheque payable to the order of "Dr. Henry Gray" would be duly paid were it endorsed,

HENRY GRAY, M.D.

These descriptions, however, are not necessary, and may be omitted from the endorsements. It is not essential that Christian names be written in full in an endorsement, but the initials must agree with those of the Christian names as given on the face of the cheque.

For example, a cheque payable to the order of " Richard Henry White " may be endorsed in any of the following ways, namely—

R. H. White,
or Richard H. White,
or R. Henry White,
or Richard Henry White.

In the case of an endorsement made by means of an impressed rubber stamp, the paying banker cannot possibly tell whether the stamp has been affixed by proper authority, and he would not pay the cheque unless the endorsement was guaranteed by the banker who presented the cheque for payment.

A payee who cannot write should make his mark in the presence of a witness ; and such witness should preferably not be an officer of the bank, *e.g.*—

his
Henry X Brown
mark
Witness—George Jones,
362 Cheapside,
London, E.C.

The mark of an illiterate drawer of a cheque should also be attested in the same manner.

In the case of a cheque payable to a deceased person, any one executor (or an administrator) may endorse, thus—

For Robert Smith
JOHN ROBINSON—Executor
For self and co-executors of Robert Smith

In the case of trustees all must endorse, whether under a will, a deed, or as trustees in bankruptcy, *e.g.*, under a will—

For Robert Smith
JOHN BROWN
EDWARD GREEN
JAMES BLACK
JOHN WHITE
} Trustees.

A cheque payable to " Messrs. Jackson " may be endorsed as,

Jackson & Son,
or Jackson Brothers,

or E. & T. Jackson,
or Jacksons.

A cheque payable to a limited company may be endorsed as—
The Coal Mines Company, Ltd.,
or For the Coal Mines Company, Ltd.,
or On A/c the Coal Mines Company, Ltd.,
or Per pro. the Coal Mines Company, Ltd.,
or For and on behalf of the Coal Mines Company, Ltd.

In the last four examples the endorser should state his official capacity—generally the Secretary has power to endorse cheques. In the first example, it is not absolutely necessary but is certainly desirable, that the person writing the name of the company should also write his own name and official position, but this is not imperative. So long as the name of the Company has been written by authority, the legal requirements are satisfied.

Procuration signatures are not accepted on dividend warrants in any case. The warrants must be signed by the person to whom they are made payable. With regard to procuration endorsements on cheques, most banks will pay without comment, whilst others will require the presenting banker to confirm the endorsement. The signer of a procuration endorsement must write his ordinary signature—initials alone are not sufficient.

When a person pays in an order cheque and omits to endorse it, his bankers may endorse the cheque—

"Placed to credit of payee with us,"

followed by the bank stamp and the signature of a signing officer. In some cases, however, the banker on whom the cheque is drawn will, before paying it, require the presenting banker to endorse it thus—

"Endorsed by order of and placed to the credit of payee with us."

An endorsement *may* be written on the face of a cheque, but this would be a most unusual procedure. A paying banker (who cannot possibly know the signatures of his customers' clients) is not liable should he pay a cheque bearing a forged endorsement. He notices, of course, that the names upon the face of the cheque and on the back agree, and that the endorsement, as far as can be seen, is in order.

Stopping Payment.

The drawer of a cheque is the only person who may stop payment. When it is necessary to stop payment of any particular cheque, a letter should be sent to the banker as under—

26th August, 19...

The Manager,
The Bank of Essex Ltd.,
100 Lombard Street, London, E.C.

Dear Sir,

With reference to my cheque No. $\frac{Y}{1}$ 72814 dated 31st ult. for £250 in favour of the Coal Mines Company, Ltd., please refuse payment of this cheque should it be presented to you.

Yours faithfully,
(signed) GEORGE JOHNSON.

When received at the bank, this letter will be handed to the cashiers who, after noting the particulars on their list of stopped cheques, will pass the letter on to the ledger clerk so that a note of the stop may be made on George Johnson's account in the current account ledger. After instructions have been received not to pay a cheque, the banker will be liable should he inadvertently pay it. It is not at all necessary to stop payment of a cheque because the payee has become bankrupt.

Most bankers would probably not act on telegraphic instructions to stop payment, as it is difficult to tell whether the customer was the actual person who sent the telegram. The practice of bankers on this point varies ; some will accept such notice, whilst others will not.

Lost Cheques.

If the payee selects the method by which a remittance is to be made, any loss will fall upon him. The holder of a lost cheque may apply to the drawer for the issue of a duplicate, and the drawer cannot refuse to give one, although he can demand from the holder a satisfactory indemnity covering such lost cheque. When a cheque is lost, the loser should communicate with all those who are parties to it, and also request the drawer to stop payment. On the drawer issuing a cheque in place of one that is lost, he should write the word "Duplicate" thereon, and also send a letter to the banker advising that a cheque marked "Duplicate" (giving other particulars

such as amount, etc.) has been issued, which is to be paid on presentation.

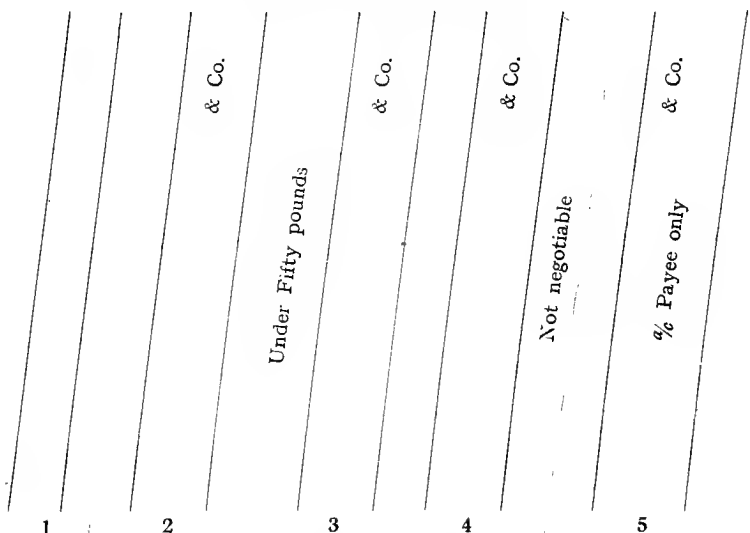
If a cheque not crossed "not negotiable" has been lost, and a finder obtains the cash for it without forgery (*i.e.*, if a payee has endorsed in blank and the cheque is therefore payable to bearer requiring no further endorsement) any person who takes the cheque honestly and gives value for it can compel the drawer to remove the stop. The drawer in such a case must recover under the indemnity, if he has issued a duplicate; otherwise he must bear the loss himself and endeavour to trace the finder.

When a person finds that a cheque is missing from his cheque book, or that the book itself has been lost or stolen, immediate notice—with full particulars—should be given to the banker.

Crossed Cheques.

The practice of crossing cheques originated in the United Kingdom, and is slowly being adopted by the continental banks. It consists

(*a*) General Crossings.



of drawing two parallel transverse lines, or writing the name of a banker, across the face of a cheque. The words "& Co." are sometimes written between the lines, but this is not essential, the

lines only being quite sufficient. The banker upon whom a crossed cheque is drawn may not pay cash over the counter to the payee, but must pay the amount to another banker. Crossings are of two kinds, namely, General and Special.

In the case of cheques bearing any of the general crossings as above, the amounts may be collected by any banker. As crossed cheques can be traced with comparative ease, and considering the great risk a thief would run in passing them, all cheques should be crossed when sent by post. As shown, the words "A/c payee only" may be written in the crossing, the object being that the collecting banker shall place the proceeds of the cheque to the credit of the payee's account. Although there is no provision in the Bills of Exchange Act, 1882, regarding the words "account payee," they have received judicial notice on several occasions. In a case decided in 1907, the judge said that "to disregard a direction of that kind, if the banker had information which might lead him to think that the account into which he was paying the cheque was not the payee's, would be negligence"; and in a later case, it was decided that a banker is guilty of negligence towards the drawer of a cheque crossed "account payee only" if he opens an account for the person presenting the cheque and collects the money for it without making any inquiries.

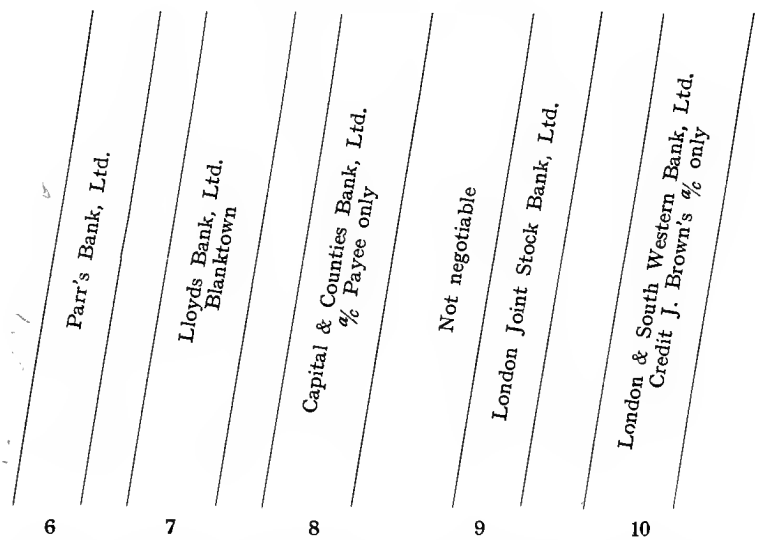
As an additional safeguard, the words "not negotiable" are sometimes written adjoining the crossing. These words should be written in close proximity to the crossing (see example) and not at the top or along the bottom of the cheque. A short explanation of negotiability may here prove useful.

A negotiable instrument is one which, if transferred to a holder who gives value for it, and takes it honestly, in good faith, and without knowledge that it has been acquired in a dishonest manner, becomes the property of the holder. Let us take the matter a little further. A person stole a Bank of England note and a postal order, and a tradesman gave the thief cash for them, being unaware that they had been stolen. On the discovery of the theft, the instruments were traced to the tradesman. Now a bank note is a negotiable instrument, and therefore, as the tradesman took it honestly and without knowledge of the theft, he can retain it against the rightful owner. The postal order is a "not negotiable" instrument; and a person who takes one honestly and in good faith has

no better title than the person from whom he received it had. The thief had no title to it, therefore the tradesman has none, and would have to make good the amount to the rightful owner. Briefly, then, in a negotiable instrument an innocent holder who gives value can obtain a good title through a thief, but obtains no title whatever through a thief in the case of a not negotiable instrument. Now we can see the additional safeguard secured in crossing a cheque "not negotiable." A cheque (unless it be crossed "not negotiable") is a negotiable instrument, and consequently a good title can be secured through a thief.

The drawer, or any holder, may cross a cheque generally, but only the drawer may cancel a crossing. If the payee, for instance, wishes to obtain cash in respect of a crossed cheque, he can request the drawer to cancel the crossing, which the latter will do by writing the

(*b*) SPECIAL CROSSINGS.



words "Pay Cash" across the top of the cheque, followed by his signature. This "opening" of crossed cheques has of late resulted in some frauds being perpetrated upon banks, by thieves who have stolen cheques from letter boxes, written the words "Pay Cash" upon them, and forged the drawer's signature or initials. At the

present time bankers are exercising the strictest possible care with regard to cheques that have been " opened," and it may be noted that there is nothing in the Bills of Exchange Act to sanction the opening of a cheque once crossed. This practice of writing " Pay Cash " across a cheque has the sanction of mercantile custom only.

As a safeguard against the amount for which a cheque has been drawn being increased by the insertion of other words and figures, the crossing is sometimes accompanied by the words " Under Fifty pounds " or " Under one hundred pounds," and so on.

In the examples of special crossings, given on the previous page, it will be seen that the name of the collecting banker is inserted, and the cheque cannot be collected by any other banker than the one named. The " not negotiable " crossing, and the effect of the words " A/c payee only " have been respectively dealt with briefly under the heading of General Crossings. A cheque crossed specially to more than one banker, would not be paid by the bank on which it is drawn—unless one crossing is that of the clearing agent of the bank named in the other crossing.

Bankers' Marks on Cheques.

It does not follow that every cheque returned by a banker is returned for want of a sufficient sum standing to the credit of the person who drew the cheque. Frequently a cheque is returned because of some irregularity in the endorsement. For example, if a cheque made payable to " Anne Jones " was endorsed " Ann Jones," the banker on whom the cheque was drawn would return it with the words " Endorsement irregular " written at the top left-hand corner. A cheque payable to " H. R. Brown " and endorsed " R. H. Brown " would also be returned with the same notification. When a cheque which a customer has wrongly endorsed is returned to him, he should write the correct endorsement and pay in the cheque again to his account. In the above two examples, it is obvious that the cheques would not be dishonoured, but merely returned so that the payee could endorse correctly. The following is a list of the usual markings on cheques returned by bankers.

" *Refer to Drawer* " (usually abbreviated R/D). This mark on a cheque is made by a banker when the account of the drawer does not warrant the payment of the cheque. The banker in this way refers the holder of the cheque to the drawer, and the latter

must then settle any difference that may exist, between himself and any party to the cheque, however it has arisen.

"*Not sufficient*" (usually abbreviated N/S). This answer shows that the drawer has some money at his credit, but not a sufficient amount to cover the cheque presented. A banker never states the amount of the deficiency, nor will he divulge any information on the subject, for the holder of such a dishonoured cheque, were he to ascertain the amount of the deficiency could pay in to the account of the drawer a sufficient sum, and then present the cheque again, when the banker would be bound to pay it. There is no such thing as part-payment of a cheque.

"*Post-dated.*" A cheque is post-dated when the drawer (either accidentally or intentionally) places a date upon it subsequent to the actual date upon which it was drawn. A banker seldom pays a post-dated cheque inadvertently, but should he do so, he cannot debit the account of the customer who drew the cheque until the actual date arrives. Post-dated cheques should be held over until the date they bear; to pay them in before the true date only results in the banker on whom they are drawn returning them marked "Post-dated." The issuing of post-dated cheques is an artifice sometimes resorted to by the drawer in order to gain time, but it only has the effect of weakening his credit.

"*Effects not cleared.*" In this instance, the customer has paid in to his credit certain cheques which have not been "cleared" at the time the dishonoured cheque was presented, *i.e.*, the cheques paid in have not yet been honoured by the various bankers on whom they were drawn. Evidently the banker, by returning such a cheque has very little confidence in his customer, as he will not permit him to draw against "uncleared" cheques. Very often the words "Present again" are added when a cheque is returned by a banker marked "effects not cleared." A dishonoured cheque may be re-presented as often as is thought necessary, and a banker sometimes makes a small charge for re-presentation. The customer may, however, decline to pay such a charge, and the banker cannot insist on the payment being made; but there are probably few customers of a bank who would decline to pay a re-presentation charge, as such an amount would be very small, whilst the banker is certainly put to some trouble in the matter.

When a banker returns a cheque by reason of its being irregular,

the drawer has not necessarily a sufficient balance at his credit to meet the cheque. Thus, before dishonouring a cheque for lack of funds (*i.e.*, marking it N/S or R/D), a banker will sometimes return the cheque if it is drawn or endorsed irregularly. It should be noted, however, that if a cheque is presented endorsed irregularly, and the drawer has not sufficient funds to meet it, the banker is not bound to return it marked " Endorsement irregular," but he is quite at liberty to mark it R/D or N/S. The matter being, therefore, one for the exercise of the banker's discretion, a cheque would be returned marked R/D or N/S (without reference to any other irregularity in the document) in cases where an account was a troublesome one, and was conducted in an unsatisfactory manner by the customer. In cases where a cheque is presented which is irregular in some way or other, and there is not a sufficient balance on the account to meet it, the banker will—in cases where the account is well conducted—return the cheque marked in accordance with the irregularity, so that on re-presentation the drawer's account may, in all probability, have the requisite balance to pay the cheque.

" *Words and figures differ.*" Some persons do not use care in drawing their cheques, and, as a result, it sometimes happens that the words written in the body of the cheque differ from the figures placed in the bottom left-hand corner. As the words govern the instrument, the banker can, legally, pay the amount stated in words ; but the usual custom is for the cheque to be returned marked " Words and figures differ." Where, however, it is clear as to what amount is intended to be paid, a banker will not usually return a cheque because of a trifling omission. For example, a cheque drawn as " Ninety-two eight shillings and seven pence " would usually be paid.

" *Cheque mutilated.*" Should a cheque, whilst in the hands of a bank be torn as though to cancel it, the paying banker will return it unpaid, unless the presenting bankers, after pasting the cheque together, add the words " Accidentally mutilated by us " followed by the bank stamp and the signature of a signing officer. If a person on opening his letters accidentally tears a cheque in two, he should paste the parts together again and write across the back " Accidentally mutilated by me, Henry Brown." On paying the cheque in, Henry Brown should call the attention of his bankers to the

mutilation, and they can guarantee the paying banker against any loss which may arise by reason of such mutilation.

"*Drawer's signature differs.*" A customer of a bank should sign his cheques in accordance with the specimen signature he gave when he opened the account; and any departure therefrom, either in the style of writing, or the composition of the signature, will justify the banker in returning the cheque marked as above.

"*Out of date.*" If a cheque is presented for payment more than six months after its date, it is the usual custom to return such a cheque marked as above. The drawer, however, is liable on the cheque until the expiration of six years from the date thereon, unless he suffers loss by the delay in presentation. Such loss might arise, for instance, through the failure of the banker upon whom the cheque is drawn—provided there was a sufficient credit balance to meet the cheque.

The following answers do not call for any explanation, namely, "Drawer deceased," "Orders not to pay," "Alteration in amount requires drawer's initials," "No account," and "Account closed."

Dishonouring a Customer's Cheque in Error.

A banker, unless there are special arrangements as regards an overdraft, contracts to pay the cheques of his customers up to the amount of their credit balance. Should the banker refuse payment of a cheque when there is in reality a sufficient sum to meet it, he has broken his contract and is liable in damages to his customer. The banker is, however, entitled to a reasonable time for posting in the current account ledger, sums paid in by a client. If the necessary amount were paid in at such a short interval before the return of the cheque that the banker was unable (whilst exercising reasonable diligence) to post the amount in his ledger, the customer is not able to recover damages. In any action for damages the question as to what was a reasonable time between receiving the paying-in slip and returning the cheque unpaid, would doubtless be left to a jury to decide.

Termination of Banker's Authority to Pay Cheques.

A banker's authority to pay his customer's cheques ceases on—

1. Countermand of payment.
2. Receipt of notice of customer's death,
3. Bankruptcy of customer.

4. Insanity of customer, legally declared.
5. Receipt of a Garnishee Order.

The first, third, and fourth of the above headings have already been dealt with, and do not need further treatment.

With regard to the second heading, any cheques paid after a customer's death, but before notice of it is received by the banker, are quite in order, and may be debited in the usual way. It may be stated that this point of practice refers only to personal accounts, or in the case where the deceased is sole partner in a firm. The death of a partner (when there are more than one) does not stop payment of any cheques signed by him in the firm's name.

The last heading does not call for a detailed explanation, but the following points may be noted. A creditor having obtained judgment against his debtor, may serve a Garnishee Order upon anyone who owes the debtor money, or upon any company in which he (the debtor) is a shareholder, giving notice of the claim, and advising the company or person, as the case may be, that such creditor has a claim on the particular debt or shares. If the debtor has a banking account, the judgment creditor may serve the banker with a Garnishee Order, and the latter will then cease to honour the cheques of his customer, *i.e.*, the debtor. The banker will stop the account, even though the credit balance may be largely in excess of the amount of the judgment.

Forgery and Alteration.

All the matters concerning cheques which have been so far discussed have proceeded upon the assumption that the signatures of the various persons have been in order. Difficulties, of course, must arise, in cases of forgery, and it has been considered advisable to deal with these matters under a separate heading, and to draw the whole together for special consideration.

It has been clearly indicated that it is the duty of a banker to know his customer's signature, and that he must honour this signature in the ordinary course of things. The banker secures a specimen of the signature when he opens an account, and it is a part of his business to take the risk of being able to recognise it on any occasion when it is necessary for him to do so. If he makes a mistake, the loss arising falls *primâ facie* upon the banker himself.

The responsibility for paying a cheque under a forged signature

of the drawer always falls upon the banker. The law presumes that he has acted negligently in doing such a thing, and therefore he must suffer. He is entitled to make his own terms with his customer, and in the absence of any special circumstances, there is no excuse for such an error as paying under a forged signature of the drawer of a cheque. This fact was clearly shown by a case which was decided in April, 1913 (*Walker* v. *Manchester and Liverpool District Bank*), where it was held that the fact of a customer's not examining his pass-book when it was periodically returned to him did not preclude him from recovering from the bank amounts paid by the bank in respect of cheques the signatures to which were forged, although such cheques were debited to his account in the pass-book.

As to endorsements the liability of a banker is not so great. But this is entirely in consequence of section 60 of the Bills of Exchange Act, 1882. This section provides that when a bill of exchange payable to order on demand is drawn on a banker—and this is exactly what a cheque is—and the banker on whom it is drawn pays it in good faith and in the ordinary course of business, it is not incumbent on the banker to show that the endorsement of the payee or any subsequent endorsement was made by or under the authority of the person whose endorsement it purports to be, and the banker is deemed to have paid the bill in due course, although such endorsement has been forged or made without authority. This is a special protection for a banker only, and then only for the banker upon whom the cheque is drawn. No other person can claim a similar protection. If the endorsement on a cheque is forged, and any person pays cash for the cheque to oblige the holder, he can have no claim whatever when the forgery is discovered, except against the person from whom he took it.

The reason for the banker's immunity is easy to understand. Although he must, at his peril, know the signature of his customer, it would be unreasonable to expect him to be able to verify the signatures of the thousands who do business with him day by day. Therefore if John Jones draws a cheque payable to Richard Robertson or order—and it will be remembered that it is only order cheques that require endorsement—and the cheque is presented at the bank of which John Jones is a customer, the banker will be the loser if the signature of John Jones is a forgery, because the

banker knows John Jones and ought to know his signature. But there is no reason why he should know Richard Robinson or his signature. Therefore, provided there is a signature "Richard Robinson" on the back when the cheque is presented for payment, and payment is made, the banker is exonerated from all liability if the endorsement turns out to be a forgery. But it must be noted that payment must be in good faith and in the ordinary course of business. Therefore, there must be no suspicious or irregular circumstances connected with the case. Thus, paying cash for a crossed cheque, paying out of banking hours, or paying on a date before the date of the cheque would be irregular, and then the banker would have no statutory protection. Who is to be the loser when a cheque bears a forged endorsement depends upon circumstances. If John Jones has never delivered the cheque to Richard Robinson, actually or constructively, he must bear the loss; but if the cheque has got into the possession of Richard Robinson, actually or constructively, the payee must suffer for allowing the document to get out of his possession. (See *Lost Cheques, supra.*)

As this book deals with banking, it is not pertinent to the present question to consider the position of any other person who gets possession of a cheque bearing a forged endorsement, except to quote section 24 of the Bills of Exchange Act, 1882, which provides that "where a signature on a bill is forged or placed thereon without the authority of the person whose signature it purports to be, the forged or unauthorised signature is wholly inoperative, and no right to retain the bill or to give a discharge therefor, or to enforce payment thereof against any party thereto can be acquired through or under that signature, unless the party against whom it is sought to retain or enforce payment of a bill is precluded from setting up forgery or want of authority." (A bill, as already explained, includes for many purposes, a cheque.) The result is that in the vast majority of cases the person who becomes the holder of a forged document must be the loser, and his only satisfaction (if any) is to be derived from the prosecution and conviction of the person who has deceived him—if he can manage to get hold of him.

One word as to alterations. At one time it was accepted as an axiom that if the amount of a cheque was altered after it had left the hands of the drawer, the drawer was liable for the whole of the

amount to which the sum payable had been altered, and the paying banker was entirely exonerated from liability, if the alteration had been contributed to in any way by the careless manner in which the drawer had drawn the cheque, that is, if he had left spaces so that any dishonest person might increase the amount. This was decided in the case of *Young* v. *Grote* in 1827. Subsequent cases threw considerable doubt upon this legal principle, but it has now been firmly established by the decision of the House of Lords in the case of the *London Joint Stock Bank* v. *Macmillan*, decided on the 21st June, 1918. A customer is bound to take care in drawing a cheque that he does not provide facilities for forgery or alteration.

Practical Advice.

In order to avoid difficulties and possible loss, a customer should always keep his cheque book under his own control, and never allow it to be lying about. An abstracted form may cause trouble. On no account should a customer sign a cheque until the body of it has been made out. It is a most reprehensible practice to give any other person the opportunity of filling in the amount. Unless cash is required at once, every cheque should be crossed when a payment is made. This enables its course to be traced. As an additional precaution the words " not negotiable " should always be added.

CHAPTER III

BILLS OF EXCHANGE (INLAND)

Introductory Remarks.

THE general position of a banker as regards cheques has been sufficiently indicated in the last chapter, although there are further matters to be considered in connection with the practices of bankers in dealing with them, and especially in the clearing of the same, that is, obtaining payment of them for their customers from the banks upon which the cheques have been drawn. These matters are dealt with in later chapters. It is now necessary to pay attention to bills of exchange, and to examine the position of bankers with regard to them. Banks are principally concerned with the negotiation of bills, and although, as we have seen, a banker has some special kind of protection afforded to him in cases of forgery when it is a question of forged endorsements on cheques drawn upon his own bank, a protection which is not accorded to an ordinary individual, when it is a question of a bill of exchange, he is in no better position than any other person. It is therefore necessary for their own protection that bankers should make special arrangements with their customers in order to avoid risk of loss. Many bills are accepted payable at a particular bank, and the bank must pay them in due course if they have contracted to do so with their customers. There is no reason, however, why the bankers should not impose special conditions upon their customers so as to protect themselves against fraud and forgeries.

Definition of Bill of Exchange.

The Bills of Exchange Act of 1882 defines a bill of exchange as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer."

Every word of the above definition requires to be carefully noted, and if the instrument does not comply with all the above requirements, it is not a bill of exchange.

As this chapter deals with "inland bills of exchange" it may be

stated that these " instruments of credit," as they are often called, consist of—

(*a*) Bills both drawn and payable within the British Isles.

Or

(*b*) Bills drawn within the British Isles upon some person resident therein.

As regards the wording of bills of exchange, no particular form is required, but the following is usual.

No.---------- London, 1st December, 19...

Impressed Stamp 2/-

£200 : 0 : 0

Three months after date pay to Mr. John Jones or order the sum of Two hundred pounds———— for value received. HENRY WILSON.

To Mr. George Brown,
200 Lombard Street,
London, E.C.

In the above example, Henry Wilson is the " drawer," George Brown is the " drawee," and John Jones is the " payee." The amount for which a bill is drawn is usually placed in the top left-hand corner, and should this figure differ from the amount expressed in words in the body of the bill, the words govern the instrument as in the case of a cheque, which, of course, is a bill of exchange, as we have already noticed. The words " for value received " are not necessary, but are inserted in practically all cases.

When the drawee assents to the order of Henry Wilson, the former will write the word " Accepted " across the face of the bill and add his signature. Having done so he is termed the " acceptor," and the bill will appear as under.

No.---------- London, 1st December, 19..

Impressed Stamp 2/-

£200 : 0 : 0

Three months after date pay to Mr. John Jones or order the sum of Two hundred pounds———— for value received.

Accepted payable at the Bank of Essex, Ltd., 100 Lombard Street, London, E.C. GEORGE BROWN.

HENRY WILSON.

To Mr. George Brown,
200 Lombard Street,
London, E.C.

The following paragraphs enlarge somewhat upon the points already mentioned—

(*a*) A bill must be signed by the person giving it, but becomes a bill of exchange before it is accepted.

(*b*) It must be for a sum certain in money, but may be payable in stated instalments, and provide that if any instalment be overdue, the whole sum shall become payable. It may also provide that interest shall be paid at a stated rate, in addition to the sum for which the bill is drawn.

(*c*) The drawee is not liable in any way until he has accepted the bill.

(*d*) A bill may be payable to bearer, in which case it may be negotiated without endorsement, or transferred by mere delivery. If it is payable to order, it cannot be transferred or negotiated unless the person to whose order it is drawn has endorsed it.

The Date.

A bill is not invalid if the date is omitted; and any lawful holder may insert what he believes to be the true date. The acceptor should, however, be advised when a particular date has been inserted, in order that he may calculate correctly the due date of the bill. A bill may bear a date prior to, or after the date it was actually drawn, and may also be dated on a Sunday.

Currency and Due Dates of Bills.

To the currency of bills not payable on demand, three days, called " days of grace," are added; and the due date falls on the last of the days of grace. Originally these days of grace were granted as a favour, and this custom having been continued for a long time, it was ultimately recognised by law. A holder may not present a bill to the acceptor for payment until the last day of grace, nor is he able to sue on the bill until the day following.

In calculating the due date of a bill, " months " mean calendar months, *i.e.*, from any one day of a month to the same day of the next month, and three days of grace are added at the end of the term.

A bill dated 28th December drawn at two months after date would complete its normal term on the 28th February, to which must be added the three days of grace, making the due date 3rd

March. But if February were leap-year, the two calendar months would expire on the 28th February, so that one day of grace would be in February, and consequently the due date would be the 2nd March.

In calculating due dates, no allowance is made for lacking days in any month. Thus, if a bill was drawn on 31st August at six months after date, the normal currency of the bill would be completed on 28th February (or the 29th if in leap-year) to which must be added the three days of grace, making the due date 3rd March.

A bill dated on either the 29th, 30th, or 31st October at four months after date completes its normal currency on the last day of February, whether that month has twenty-eight or twenty-nine days; so that the due date would be 3rd March—adding the three days of grace. If a bill was drawn at four months after date and dated 28th October, the four calendar months would expire on 28th February and the due date would be 3rd March. But should February have twenty-nine days, being leap-year, then there would be one of the days of grace in February, and in this case the bill would be due on 2nd March.

In calculating the due date of a bill drawn at, say, sixty days after date, the period to be reckoned is not an inclusive one. That is to say, a bill dated on the 27th March at sixty days date would become due on the 29th May as the number of days in March is not inclusive.

When the last day of grace falls on a Sunday, Christmas Day, Good Friday, or on a public fast or thanksgiving day appointed by royal proclamation, a bill is due and payable on the preceding business day. If the last day of grace is a Bank Holiday, then a bill is due and payable on the next business day after the holiday. Should the last day of grace be Sunday, and the Saturday a Bank Holiday, then the bill will be due and payable on the Monday following.

All bills which are not payable on demand or at sight, take three days of grace; but bills drawn thus: "On 1st February, 1912, without grace" or "On 1st February, 1912, fixed," are respectively due and payable on that date, and no days of grace are allowed. It may be mentioned that Bank of England post-bills do not take the usual days of grace. These post-bills are drawn at seven days after sight, by one branch of the Bank of England upon another.

Post-bills may be purchased at any of the branches of the Bank (or at the Chief Office) without charge, and form a convenient means of remitting money. The branches are ten in number, namely, Western Branch Burlington Gardens, Law Courts Branch, Birmingham, Bristol, Hull, Leeds, Liverpool, Manchester, Newcastle-on-Tyne, and Plymouth. If, however, a customer of the Bank of England accepts a bill payable there, such bill will, of course, take the usual days of grace.

It may be mentioned that bills payable in France, Germany, and Italy have no days of grace ; and when a bill is drawn in one country and payable in another, the due date is fixed by the law of the country where the bill is payable.

Acceptance.

An acceptance is either (*a*) General or unconditional, (*b*) Qualified or conditional. We will, for convenience, reproduce the form of accepted bill given in the early part of this chapter—

No._____ London, 1st December, 19..

Impressed Stamp 2/-

£200 : 0 : 0.

Three months after date pay to Mr. John Jones or order the sum of two hundred pounds for value received.

HENRY WILSON.

To Mr. George Brown,
200 Lombard Street,
London, E.C.

Accepted payable at the Bank of Essex, Ltd., 100 Lombard Street, London, E.C.
GEORGE BROWN.

In the foregoing instance, George Brown has assented unconditionally to the order of Henry Wilson, so that the above bill is generally, or unconditionally accepted. It is not absolutely necessary that the word "accepted" be written across the face of the bill, although this is the usual custom. If the drawee signs his name only across the bill, he has accepted it ; and an acceptance *may* be written even on the back of a bill.

The following are instances of qualified or conditional acceptances.

(*a*) Payable at a stated bank only, *e.g.*—

Accepted payable at The Bank of Essex, Ltd., Lombard Street, and there only.
GEORGE BROWN.

} Qualification as to place.

(*b*) Payable at a different date from that stated on the bill, *e.g.*, on a bill drawn at three months after date—

Accepted payable four months after date.
GEORGE BROWN.

} Qualification as to time.

(*c*) Payable for a less amount than that expressed by the bill, *e.g.*, on a bill drawn for £200—

Accepted payable for £100 (One hundred pounds) only.
GEORGE BROWN.

} Qualification as to amount.

In cases where a bill is addressed to two or more persons (not being partners), and no one of them has the right to sign on behalf of the others, should one or more of them abstain from signing, then this is a further instance of a qualified acceptance.

A holder of a bill can refuse to take a qualified acceptance, and if he cannot obtain an unqualified acceptance, he may treat the bill as "dishonoured by non-acceptance." If a holder decides to take a qualified acceptance, the drawer and endorsers are released from all liabilities—unless they have expressly assented thereto. The holder of a bill is not necessarily the drawer, as the instrument may have been negotiated (*i.e.*, transferred to another person) at the time it is presented to the drawee for acceptance. This will perhaps be more apparent when we remember that, as already stated, a bill becomes a bill of exchange before it is accepted, and may consequently be negotiated or transferred before acceptance.

Liability of Parties to a Bill.

The liabilities of the several parties to a bill which has been dishonoured (by non-acceptance or non-payment) may be conveniently summarised as follows. The acceptor is the one who is primarily liable to the holder. If the bill remains in the drawer's hands (*i.e.*, is not transferred or negotiated) the acceptor remains liable to the drawer only.

When the drawer transfers or negotiates the bill by endorsement to another, the drawer in his turn becomes liable in addition to the acceptor; and as every subsequent endorser becomes liable, the more endorsements there are on a bill, the better is the security, provided, of course, that the persons who have endorsed are financially able to undertake their liability.

It may here be stated that the holder of a bill is the person who has the instrument in his possession. Anyone, who in good faith, and for value, takes a bill complete and regular on the face of it, has a good title to the instrument, provided there is no forged signature thereon. The holder of a bill may be any endorser, or the payee, or the bearer (in cases where a bill payable to bearer has been transferred by mere delivery).

An acceptor undertakes that he will pay the bill in accordance with his acceptance. If a bill is payable to a third party, the acceptor is not liable if such payee's endorsement is forged. In a bill drawn as under, the acceptor would not be liable if the bill came into the possession of someone who forged the endorsement of Henry Williams and transferred the instrument for value.

No.---------- London, 1st December, 19.

Impressed Stamp 2/-

£200 : 0 : 0

Three months after date pay to Mr. Henry Williams or order the sum of Two hundred pounds for value received.

GEORGE SMITH.

To Mr. James Jones,
200 Princes Street,
London, E.C.

On the dishonour of a bill, the drawer and each of the endorsers are liable, and the holder can proceed against whomsoever he wishes, but not unless the proper notices of dishonour have been duly given. Should an endorser pay a bill and receive it from the holder, he may in turn sue the drawer or any previous endorser.

There are few defences at law in an action upon a bill, since the instrument itself is an acknowledgment of a debt. The only defences that can be pleaded are—

(*a*) That no value was received.

(*b*) That the bill was obtained by fraud.

(*c*) That it was given in respect of an illegal contract (*e.g.*, in respect of gaming debts).

The above defences, however, cannot be upheld against an innocent holder who has purchased the bill in good faith. It will be seen later on what is meant by a "holder in due course," the person who obtains an almost unassailable title to a bill.

Stamp Duties.

The stamp duties on inland Bills of Exchange are as under—

Payable on demand, or at sight, or on presentation, or within three days after sight or date (for any amount), 2d.

In all other cases where the amount of the bill does not exceed								£10	..	2d.
Exceeds £10	and	does	not	exceed	..	..	..	..	£25	..	3d.
,, £25	,,	,,	,,		..	..	..	..	£50	..	6d.
,, £50	,,	,,	,,		..	..	..	..	£75	..	9d.
,, £75	,,	,,	,,		..	..	..	..	£100	..	1s.
Exceeding £100—											
For every complete £100, and any fractional part of £100					..	..	..	..	..	..	1s.

Inland bills must be written upon paper previously stamped. The stamp may not be impressed after they are made or executed; and a stamp of insufficient value cannot be augmented—a new bill should be drawn.

The following documents are exempt from the above duties—

(*a*) Letter written by a banker in the United Kingdom to any other banker therein, directing the payment of any sum of money —not being payable to bearer or to order—and such letter not being sent or delivered to the person to whom payment is to be made, or to any person on his behalf.

(*b*) Draft or order drawn by any banker in the United Kingdom upon any other banker therein, not payable to bearer or to order, and used only for the purpose of settling an account between such bankers.

(*c*) Letter of Credit granted in the United Kingdom, authorising that drafts shall be drawn out of the United Kingdom payable therein.

(*d*) Cheques of Poor Law Unions, the Registrar of a County Court, and registered Friendly Societies.

The duty of 2d. on inland bills at sight, on demand, on presentation, or payable within three days after date or sight, may be denoted by either an adhesive or an impressed stamp.

A cheque, which is a bill of exchange payable on demand, may therefore bear postage stamps. The change of duty from 1d. to 2d. was made by the Finance Act, 1918.

Presentment for Payment.

On the due date of a bill, the banker will present it for payment at the place indicated in the acceptance, even if the acceptor has stated before the due date that he will not pay the bill, or if he has failed, or is deceased. The bill need not be presented to the acceptor personally. It is sufficient if it is presented at his house or place of business to anyone who appears to be in a position to deal with the business. If the bill is not presented on the due date, the drawer and endorsers are discharged from liability; but the acceptor is still liable, although he may claim in respect of any loss he may have suffered by reason of the delay. An acceptor is not obliged to send for a bill; it should be presented to him during his usual business hours. In cases where a bill is accepted by one or more persons who are not partners, it is presented to each of them. If a cheque is tendered in payment, a bill will not be given up but attached to the cheque, and the bill will be surrendered only when the cheque is paid. A banker will not accept in payment a cheque which cannot be cashed by the due date of the bill. If payment is made in legal tender,[1] a banker will, of course, deliver up the bill to the acceptor. Some banks will not pay bills accepted by their customers and payable at the bank unless the customer sends to the bank special orders to pay such bills. Other banks will pay without any advice other than the usual acceptance on the face of the bill. The former

[1] Gold is legal tender to any amount in the British Isles. Bank of England notes are full legal tender for any sum above £5 in England and Wales (not in Ireland or Scotland), except when tendered by the Bank of England itself or its branches. Hence follows this curious result. A £5 note is not legal tender for a debt of £5; but a £5 note and 1d. constitute legal tender for a debt of £5 0s. 1d. Silver is legal tender in amounts not exceeding forty shillings, and bronze in amounts not exceeding one shilling. Currency Notes, issued after the outbreak of war in 1914, are legal tender to any amount.

is the safer course, and is generally adopted by banks in the provinces. The death or bankruptcy of an acceptor before payment of a bill—if known to the banker—cancels the latter's authority to pay such customer's acceptances.

Lost Bills.

If a bill has been lost or stolen after having been duly accepted, a customer should at once advise his banker to stop payment.

Some banks act merely on a letter signed by a customer, giving particulars of the bill (or cheque), payment of which is to be stopped, whilst other banks require a special form to be signed.

Accommodation Bills.

These are bills accepted, drawn, or endorsed, and put into circulation to enable one or more of the parties concerned to raise money by getting such bills discounted. The drawer or endorsers arrange to provide the acceptor with funds to meet the bill on the due date ; but until value has been given, none of the parties is liable on the bill. As soon as value has been given (*i.e.*, if the bill has been discounted) a holder in due course has a right of action against any of the parties, and it makes no difference if he is aware that the instrument is an accommodation bill. The above-mentioned expression of a " holder in due course " may be explained as under.

A " holder in due course " is one who has taken a bill complete and regular on the face of it, under the following conditions, namely—

(*a*) That he became the holder of it before it was overdue (*i.e.*, previous to its date of maturity), and without notice that it had been previously dishonoured, if such was the case.

(*b*) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Accommodation bills do not represent trade transactions, and a large volume of such bills in circulation is productive of much mischief. In 1857 we had a grave financial crisis in this country, and a Select Committee of the House of Commons, appointed after the panic, came to the decision that the main cause thereof was the great volume of accommodation paper in existence. At the present time there is no doubt that the number and volume of the above class of bills in circulation is much smaller than formerly,

and should any be offered to a banker for discount, he is often able to detect their character by the making of judicious inquiries, combined with his own special knowledge of the business of the various parties.

Endorsements.

The various points already explained with regard to cheque endorsements are applicable to bills. For instance, a blank endorsement may be converted into a special endorsement, if the endorser writes upon the bill the name of the person to whom or to whose order it is to be paid, and a bill endorsed in blank becomes payable to bearer. A bill may also bear a restrictive endorsement.

We have already noticed that a banker is not liable for paying a cheque bearing a forged or unauthorised endorsement, if drawn upon his own bank, but he is liable in respect of a bill. A banker, therefore, before paying a bill, carefully scrutinises the endorsements. If a bill is drawn payable to a specified person without the words " or order," " or bearer " added, it is treated as being payable to order, and therefore requires endorsement before it can be transferred. The same remark, of course, applies to cheques. The following points with regard to bill endorsements should be noted—

(*a*) All bills should be endorsed by a customer before paying them into his bank for the credit of his account.

(*b*) If a bill is payable to the order of two or more persons who are not partners, each of them must endorse.

(*c*) The endorsement of an infant conveys a good title, but the infant himself is not liable on the bill.

(*d*) A trustee or an executor may endorse a bill, but it is usual for the presenting banker, when sending such bills to the paying banker to place after the endorsement the words " Endorsement confirmed," followed by the bank stamp and an official signature.

(*e*) An endorser " sans recours," *i.e.*, " without recourse," is liable in respect of any previous forgeries; though he is not liable if the bill is unpaid.

(*f*) An endorser who is bankrupt can transfer a good title to a person who takes a bill in good faith and for value.

Fictitious Payee.

There has been a good deal of anxiety amongst bankers in recent years owing to the decision of the House of Lords in the case of

Vagliano v. Bank of England. This decision was concerned with the question of a fictitious payee, and the matter deserves close attention owing to certain risks which may attach to the negotiation of bills of a certain character. By section 8 of the Bills of Exchange Act, 1882, a bill is payable to bearer, if it is expressed to be so payable, or if the only or the last endorsement is an endorsement in blank. Of course a bill payable to bearer needs no endorsement. But by section 7 of the Act it is provided that where the payee is a fictitious or non-existing person the bill may be treated as payable to bearer. The case of Vagliano, referred to above, was decided in 1891, and it is very important as showing what liability may attach to a banker at whose bank bills are made payable, and how such liability may be avoided. The facts of the case were as follows: Messrs. C. Petridi & Co. were a firm carrying on business at Constantinople. Vucina, a foreign correspondent of the firm of Messrs. Vagliano, who carried on business in London, was in the habit of drawing bills on Messrs. Vagliano to the order of Petridi & Co. A clerk who was employed by Vagliano forged certain bills, having himself put in the name of Petridi as payees, and that of Vucina as drawer. As the bills were payable to the order of Petridi an endorsement was necessary, and he forged the endorsement of Petridi and made it an endorsement to a non-existing person to whom he gave the name Maratis. The bills were made payable at the Bank of England. When they were presented in due course at the bank the bills were paid across the counter. In this way the clerk of Vagliano managed to secure something like £70,000 for himself. At length the forgeries were discovered, and the question then arose as to who should bear the losses incurred, Vagliano or the Bank of England? It was eventually decided that the bills having been made payable to a non-existing person, they were payable to bearer, and that the bank incurred no responsibility through having treated them as such. It was also held that a fictitious or non-existing person includes a real person who never had or was intended to have any right in the bill, and who was named by way of pretence only.

This doctrine has been extended to cheques as well as to bills, though there may be circumstances under which, in the case of cheques, at any rate, it will not apply, as two or three recent cases have shown. Still, this is only an illustration of the care that

bankers must take if they deal with bills, a thing which is one of their principal lines of business.

Discounting Bills.

Unless he is prepared to run the risk of a serious loss, a banker must exercise the greatest caution in discounting bills of exchange. Every person whose name appears on a bill as drawer, acceptor, or endorser is legally liable to pay the same if sued by the holder, if everything else in connection with the document is in order, though, of course, the acceptor is the person who is primarily liable. Sometimes a banker may make confidential inquiries as to the financial status of the acceptor, and this is not a difficult matter in the majority of cases, as bills of exchange are generally made payable at the acceptor's bank. This, however, is only an additional precaution. It is to the holder of the bill, very frequently one of his own customers, that the banker looks for an indemnity in case the bill is not met at maturity, and it is the personal experience that he has had of the holder's financial career which makes him arrive at a decision whether he will discount the bill or not. If the balance of the current account of the customer is small, or if it has been repeatedly overdrawn, or if the customer has drawn cheques which the banker has been compelled to return marked R/D, no arrangement having been made as to an overdraft, the banker will be very chary as to discounting a bill for such a person, unless he is personally aware of the perfect stability of one or more of the endorsers. On the other hand, if the customer's financial career has been in every way satisfactory, the banker will readily discount a bill, charging the market rate for the accommodation.

No prudent banker will ever take a bill unless it is endorsed by the person for whom he discounts it, whether such endorsement is legally necessary or not. And, again, owing to the difficulties which may arise in the case of mere accommodation bills, it is the practice of many bankers to require some evidence as to the bills discounted being trade bills.

When he has discounted a bill, the banker becomes the holder in due course, and he is the person to sue upon the bill in case it is not paid, or to look to the party whom he has accommodated for satisfaction In order, however, to be secure as to his remedies,

the banker must take the greatest care to present the bill at the proper time and to give the proper notices of dishonour. If he fails to do this he may himself be the loser in the long run. It is needless to say that the banker must see that the bill is in correct form and properly stamped.

There is no general inclination on the part of English bankers to discount foreign bills at all, nor inland bills which have more than six months to run.

Further remarks upon discounting bills will be found in Chapter VIII.

Unpaid and Dishonoured Bills.

When the drawee refuses to accept a bill, or when after accepting it the drawee, who has now become the acceptor, refuses to pay the same on its due date, the bill is said to be dishonoured. It is the usual custom (although it is not absolutely necessary) to "note" an inland bill dishonoured by non-acceptance or non-payment. Noting is a second formal presentment of the bill to the acceptor, by a Notary Public, who attaches to the bill a ticket upon which is written the answer given by the acceptor who has dishonoured the bill.

When no Notary Public is available, any householder or responsible resident may sign a certificate (in the presence of two witnesses) recording the dishonour of the bill. This certificate should be followed by an exact copy of both the back and front of the bill, and the form must bear a stamp duty of one shilling which may be denoted by postage stamps. The form of certificate is that shown on next page.

A bill must be noted on the day of dishonour or the next succeeding business day, and the expenses of noting may be recovered from any person who is a party to the bill. The holder of a dishonoured bill must give notice at once to all parties whom he desires to hold responsible. When an inland bill is dishonoured by non-acceptance, the holder, upon giving due notice to the drawer and endorsers, can sue any one of them in respect of the bill. An endorser who has paid a dishonoured bill can sue any of the previous endorsers, provided they have received due notice of dishonour. When a customer receives a dishonoured bill from his banker, the former should give notice to the drawer and

FORM OF NOTICE OF PROTEST.

KNOW ALL MEN that I A B (householder) of in the county of in the United Kingdom, at the request of C D, there being no Notary Public available did on the day of 19.... at demand payment (or acceptance) of the bill of exchange hereunder written from E F to which demand he made answer. wherefore I now, in the presence of G H and I K, do hereby protest the said bill of exchange.

(Signed) A B

G H
Address
Occupation
I K
Address
Occupation
} Witnesses.

each endorser. The neglect to send such a notice within a reasonable time will discharge the drawer and endorsers from liability.

In the absence ot special circumstances, the following are the rules for giving notice within a reasonable time—

(*a*) Where the person giving and the person to receive notice reside in the same place, the notice must be given or sent off in time to reach the latter on the day after the dishonour of the bill.

(*b*) Where the person giving and the person to receive notice reside in different places, the notice must be sent off on the day after the dishonour of the bill, if there is a post at a convenient hour on that day, and if there is no such post on that day, then by the next post thereafter.

Each party to whom notice of dishonour has been given, has the same time in which to give notice to any other parties to the bill whom *he* desires to make responsible.

If an acceptor dishonours a bill at maturity, and an endorser pays the amount to the holder, such endorser can sue the drawer and any of the previous endorsers.

Notice of a dishonoured bill may be given either in writing or

verbally—the former being, of course, the usual way. The customer who has received a dishonoured bill from his bankers should send a notice to the drawer, after the following manner—

(*a*) *To Drawer.*

300 FENCHURCH STREET,
LONDON, E.C.,
4th Jan., 19..

Dear Sir,—Please take notice that John Smith's acceptance to William Jackson for £400 due 3rd inst., and payable at the Western Bank of England, Ltd., Reading, of which you are the drawer, has been this day returned to me dishonoured by non-payment.

I therefore have to request immediate payment thereof.

Yours faithfully,

To_____

(*b*) *To an Endorser.*

300 FENCHURCH STREET,
LONDON, E.C.,
4th Jan., 19..

Dear Sir,—Please take notice that John Smith's acceptance to William Jackson for £400 due 3rd inst., payable at the Western Bank of England, Ltd., Reading, and bearing your endorsement, has been this day returned to me dishonoured by non-payment.

I therefore have to request immediate payment thereof.

Yours faithfully,

To_____

Should the bill be wrongly described, this will not invalidate the notice, provided the person receiving such notice has not been misled by such misdirection.

If a notice is sent through the post, delay or miscarriage on the part of the Post Office will not release the person to whom the notice is addressed. Should a drawer or endorser be deceased, notice should be given to his representative; and in the case of a bankruptcy notice may be given to the trustee, or to the bankrupt. When a banker is acting as an agent for his customer in *collecting* a bill, he will return it to the customer on dishonour. The customer should then send the necessary notice to the drawer and endorsers. In cases where a banker has *discounted* a bill (*i.e.*, purchased it) he will retain the bill, and advise his customer and all other parties whom

he desires to hold responsible. The notice sent by the banker is similar to the examples already given.

THE WESTERN BANK OF ENGLAND, LTD.,
READING.

To_____ of_____

Please take notice that X Y's draft £ upon A B of_____dated_____at _____ $\frac{\text{days}}{\text{months}}$ after $\frac{\text{sight}}{\text{date}}$ due_____ payable at_____and upon which you are liable as (insert drawer, endorser, or acceptor as the case may be) has been returned to us dishonoured by (non-payment *or* non-acceptance) and we have to request that you will make immediate payment thereof together with expenses amounting to £_____.

In cases where a customer receives notice from his banker of the dishonour of a bill, not accompanied by the bill itself, the customer need not send notice to the various parties, as this will have been already done by the banker.

When a customer receives the bill from his banker, it is necessary for the former to send out the required notices. When a bill, which a banker has discounted for a customer, is returned unpaid to the banker, he will debit the amount (plus expenses) to the customer's account. The full amount of the bill has been already credited to the customer at the time of discounting. The banker retains the bill, enters particulars in a book generally termed the " Returned Bills Register," and sends out the notices. Of course, where a banker has received a bill for collection, he does not credit the amount to the customer until the bill has been duly paid ; therefore in cases of dishonour, the bill is returned to the customer.

Case of Need.

Occasionally the drawer or an endorser of a bill of exchange will place on the face thereof—

In case of need apply to Henry Jones,
400 Gresham Street,
London, E.C.

Henry Jones is termed a "referee in case of need," or shortly, a "case of need." The object of the above words on a bill is to enable a holder to resort to the "case of need," should the bill be dishonoured by non-acceptance or non-payment.

The holder of an inland bill dishonoured by non-acceptance and which bears the name of a "case of need," may use his own discretion as to whether or not he will avail himself of that right.

The holder, if he desires, can make an immediate demand upon either the drawer or an endorser, and he should give both parties notice of the dishonour of the bill, but it is not necessary to have the bill noted in a case of this description.

Where a "case of need" accepts a bill on behalf of any other party thereto, this is termed an "acceptance for honour," and should be in the following form—

Accepted for honour and account of X Y Z & Co. (drawer or endorser as the case may be), with £ s. d. notarial charges, and will be paid if regularly presented when due.

A B C & Co.

The purport of the above is, that if the bill is not paid at maturity, Messrs. A B C & Co. will pay the amount for the honour of the drawer or an endorser, as the case may be.

Should the acceptance not state for whose honour it is made, it will be taken to be for the honour of the drawer.

Discharge of Bill.

A bill is discharged (*i.e.*, the rights of action of all parties thereto are extinguished) in the following ways—

(*a*) By payment at (or after) the due date, by or on behalf of the acceptor, to the legal holder. This is termed "payment in due course," and is the usual method in which a bill is discharged. Should an acceptor pay a bill before the due date, the instrument is not discharged, and may be re-issued at any time prior to its maturity, but on the due date the bill is, of course, discharged, and cannot be re-issued. A bill payable on *demand* cannot, of course, be re-issued.

(*b*) A holder may, after the due date, renounce his rights of action against the acceptor, which will be done either by making

a renunciation in writing, delivering the bill to the acceptor, or by cancellation.

(*c*) Should a bill during negotiation come into the possession of the acceptor as a holder in due course, this will operate as a discharge.

(*d*) In the case of an accommodation bill, payment by the party accommodated is a discharge.

Payment should be made to the true holder, but payment to a finder or a thief made without negligence, will operate as a discharge.

Forgery.

We have seen that a banker paying a bill bearing a forged endorsement is liable thereon. A banker is under no legal obligation to pay bills accepted payable at his bank. He has the right to inform his customer that such bills must be domiciled (*i.e.*, accepted payable) at the customer's place of business, and a cheque drawn on the bank for the amount on the due date. The banker, of course, *does* pay bills domiciled with him, but he is not bound by law to do so. He must, however, pay in respect of cheques, and consequently he is protected in regard to forged or unauthorised endorsements, though this is only by statutory authority.

Forgery consists not only in writing feloniously another person's name, but also in the alteration of a bill already signed. The writing of a form of a bill of exchange above the signature of another person amounts to forgery, if the signature was not given expressly for that purpose. If an endorsement which was necessary to transfer a bill is found to be a forgery, the holder has no title to the instrument. If the endorsement was not necessary, *i.e.*, if the bill had been endorsed in blank, and was consequently payable to bearer, although in that blank endorsement there is a forgery, the holder secures a good title, for the reason that, although he took the bill with a forged endorsement, he did not take it *through* a forged endorsement. That is to say, the bill was already payable to bearer (being endorsed in blank), and could consequently be transferred without any further signature.

Alteration of Bill.

Closely connected with the question of forgery is that of the alteration of a bill, and against this a banker must be on his guard. It is provided by section 64 of the Bills of Exchange Act, 1882,

" (1) Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised, or assented to the alteration, and subsequent endorsers. Provided that where a bill has been materially altered, but the alteration is not apparent, and the bill is in the hands of a holder in due course, such holder may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenor. (2) In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and, where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent." If an alteration is made it must be initialled by all parties to the bill.

This section of the Act was carefully considered and applied in a case in 1896, *Scholfield v. Earl of Londesborough*, where a bill originally drawn for £500, upon stamped paper sufficient to cover £3,500 was fraudulently changed from the £500 to £3,500. The bill had been drawn with blank spaces, which facilitated the fraud. But it was held that the acceptor of a bill of exchange owes no duty to the drawer of the same, or to any other person who is a party to the bill, other than to pay it on presentment, so that if the bill is accepted as presented, the acceptor is not liable, even though he has been negligent, to a holder for value of a bill fraudulently altered after acceptance. This decision appears, at first sight, to conflict with the old cheque case of *Young v. Grote*, where a customer was held responsible for the loss arising through his leaving blank spaces in a cheque so that a fraudulent person was able to alter the same. But the distinction is clear. In the case of a bill of exchange, there is no privity of contract except between immediate parties, so far as a duty to avoid negligence, etc., is concerned. In the case of a cheque there is direct connection between the banker and his customer, and each is bound not to act negligently to the detriment of the other. For some years it was doubted whether the mere leaving of blank spaces in a cheque so as to permit of alterations being made was sufficient evidence of negligence so as to charge a customer with any loss which might arise through payment of the increased amount of a cheque. It was decided by the House of Lords in the case of the *London Joint Stock Bank* v. *Macmillan* (1918) that it was. (See page 38.)

Allonge.

In cases where there is no room on a bill for further endorsements, a slip, called an "allonge," is pasted on to the end to take further signatures. The first endorsement on the allonge should be written partly on the bill as well, in order to show that the two papers relate to each other. An allonge is seldom met with; but in cases where a bill (or cheque) has been sent by an English business house to the Continent in payment of an account, it is sometimes presented for payment to the banker in England upon whom it is drawn, with an allonge attached. In most Continental countries, the transference of a bill or cheque must be by a special endorsement; and as cheques and bills pass through more hands on the Continent than in England—fewer people having banking accounts—the allonge is occasionally met with in these cases. In England it is the custom to pay cheques into one's bank as soon as received; but on the Continent, and in Germany especially, they are negotiated and transferred from one person to another, with far more frequency than is the case in our own country.

Issue of Bill.

In dealing with the subject-matter of this chapter, it has been assumed all through that the bill of exchange has got into circulation properly. But a word or two must be added by way of caution, pointing out a danger which may arise in certain cases, if by any chance a bill has not been properly issued. Just as a deed is of no effect at all until it has been delivered, that is, put forward with the full and free consent of the person who has signed and sealed it, so a bill of exchange, although complete in form, may be of no value at all because it has never been delivered. Thus, a bill may be drawn by a merchant and placed in his desk. If the bill is stolen by any dishonest person, and an acceptance forged, with possibly the addition of one or more endorsements, the person into whose possession it comes has no right of action against the drawer, whatever may be his remedies against the parties, assuming that one of the endorsements is genuine. There has been no delivery of the bill, and until there has been a delivery there is no liability.

Miscellaneous Notes.

The following are a few useful notes of a general character.

(*a*) If the words and figures in a bill differ, as the words govern

the instrument, some banks will advise their customer and the acceptor of the amount as given in words, which will then be written in red ink above the amount in figures. Other banks return such bills for correction, and this is the better plan.

(*b*) An acceptor may pay a bill at any time during banking hours on the due date. He may refuse at one period of the day, and pay at another.

(*c*) Notice of dishonour of a bill is excused on occasions where after reasonable diligence has been exercised notice cannot be given ; for example, if the person to whom notice should be sent cannot be reached. This holds good, however, only during the time that it is not possible to find the party, but should it at any time become possible to find him, the notice must be given.

(*d*) An acceptance may be given before the drawer has signed his name.

(*e*) Acceptances made by a partner in a non-trading concern are not binding upon the undertaking, but only upon the individual signer.

(*f*) When a bill is returned by a banker unpaid, owing to there being an insufficient balance on the customer's account, the bill is generally marked R/A (*i.e.*, Refer to Acceptor).

(*g*) In the case of the holder of a bill agreeing with the acceptor to take some particular security in lieu thereof, and the particulars are embodied in the form of a deed, the bill is said to be discharged by " merger " into a superior contract, *i.e.*, the bill is cancelled by the creation of the new deed.

CHAPTER IV

BILLS OF EXCHANGE (FOREIGN)

Introductory Remarks.

In the last chapter the statutory definition of an inland bill was given. Any other bill of exchange, provided it complies with the requirements of the Bills of Exchange Act, 1882, is a foreign bill.

The law as to foreign bills is, in the main, the same as that which is applicable to inland bills. The differences as to stamping and proceedings upon dishonour are important and are fully referred to in this chapter, but it must also be noted that it is quite a common thing for foreign bills to be drawn at one or more "usances," the term "usance" signifying customary time, that is, the time of payment as fixed by custom, having regard to the place where the bill is drawn and the place where it is payable. The true date of payment is calculated by adding the three days of grace to the usance.

Form of Foreign Bill.

A foreign bill generally consists of a set of three bills, identical in terms, except that each is expressed to be payable only on condition that neither of the other two has been paid. If the medium of the post is made use of for the transmission of these bills, they are sent under separate covers, and the risk of losing the bill—for the three constitute one document, unless more than one part is accepted—is thereby greatly diminished.

The following is a form of foreign bill (first of exchange)—

Exchange for $2,000.

LONDON,
29th November, 19..

4/- Stamp.

At Sixty days after sight pay this First of Exchange (Second and Third of the same tenor and date unpaid) to our Order the sum of Two thousand dollars_____ _____ Value received_____ which place to account.

For and on behalf of
THE ENGLISH EXPORT CO., LTD
JOHN WHITE, Director.
GEORGE BLACK, Secretary.

To
The American Import Co., New York.

The second and third copies of the above bill would, of course, embody similar particulars

The first is the only one which would be stamped, as it is the first to reach the drawees. The object of drawing bills in sets is to avoid loss in case of shipwreck or miscarriage.

Should the English Export Company, Ltd., have, say, $2,000 to pay to another firm in New York, it will be seen that, if the Export Company draws a bill on the American Import Company payable to the order of the New York firm to whom the drawers are indebted, this will adjust the amounts as between the three parties.

Let us make this clearer. If A B & Co. of London owe C D & Co. of New York $2,000, and E F & Co. of New York owe a like sum to A B & Co., if A B & Co. draw a bill on E F & Co. payable to C D & Co. or order, this will adjust the three debts. In practice, however, it is unlikely that the three accounts would be quite adjusted by one bill. In all probability there would be an account current between the three parties, which would be settled only at certain intervals; but the example has been given to show how foreign bills may adjust accounts between various parties.

A large number of foreign bills are drawn, not to the order of the drawer, but to some third party named in the bill.

Stamp Duties.

It is usual to state the amount of a foreign bill in the currency of the country where it is payable. The amount of stamp duty on the above-named bill is determined by converting the value of the foreign currency as stated (at the rate of exchange on the date of the bill) into the English equivalent.

The stamp duty on foreign bills is the same as that for inland bills; but in cases of bills drawn out of, and expressed to be payable out of, the United Kingdom, but endorsed, negotiated, or actually paid in the United Kingdom, the duty is as under—

Where the amount exceeds £50 and does not exceed £100, 6d. Where the amount exceeds £100, the duty is 6d. for every £100, and also for every fractional part thereof.

In the example of foreign bill already given, it must be stamped with an impressed stamp at the same rate as for inland bills. When, however, bills are received in this country, drawn and expressed to be payable out of the United Kingdom, but endorsed, negotiated, or paid

therein, adhesive stamps, called foreign bill stamps, of the above-mentioned value must be at once affixed. When a foreign bill is received in England, it is not necessary to notice that the foreign stamp duty is correctly denoted. What must be done, however, is to see that the bill is properly stamped in accordance with English law.

It should be noted that bills drawn in the Channel Islands or the Isle of Man are regarded as inland bills, with the exception only of the stamp. As the financial arrangements of those islands are independent of this country, such bills are, for the purposes of stamp duty, considered as foreign bills subject to the adhesive *ad valorem* stamp, if drawn at more than three days after sight or date.

In the case of bills drawn in English currency by an English company, firm, or individual, upon any drawee located in Belgian, Dutch, or Danish towns, and accepted payable in England, it is necessary to see that stamps of the respective nationalities are affixed, otherwise the holder cannot sue on the bill in a foreign court.

It should be noted that in the case of foreign cheques or foreign three day bills, the drawer, the person into whose hands the instrument first comes unstamped in this country, and the person to whom it is presented for payment, are the only ones who may affix the adhesive stamp.

As regards inland cheques and three day bills, the drawer and the person to whom the instrument is presented for payment are the only ones who may affix the stamp. If, therefore, any person other than those above described should attach a stamp, such stamping would be invalid.

Acceptance.

In accepting a foreign bill made payable after sight, the date of its maturity (*i.e.*, due date) is calculated, not from the date of the bill itself, but from the day it is seen or " sighted " by the drawee. Therefore, the simple specimen of bill already given will, on its being duly accepted, appear as shown on next page.

It may be mentioned that there are no days of grace in the case of bills on New York State, France, Germany, Italy, Sweden, Norway, Denmark, Holland, and Belgium. In Russia there are no days of grace, although bills *may* be presented for payment on one of the business days immediately after the due date ; but firms of good standing in Russia do not take advantage of these extra days.

LONDON,

29*th November*, 19..

Exchange for $2,000.

4/- Stamp.

At Sixty days after sight pay this First of Exchange (Second and Third of the same tenor and date unpaid) to our Order the sum of two thousand dollars_____ _____ Value received_____ which place to account.

Signed 6th December, 1910. Accepted payable at the National Bank of America, New York City. For the American Import Co. John P. Mather, President. J. S. Heaning, Treasurer.

To The American Import Co., New York.

For and on behalf of THE ENGLISH EXPORT CO., LTD. JOHN WHITE, Director. GEORGE BLACK, Secretary

Disposal of Bills.

In the foregoing example of a foreign bill, it will be seen that, to forward the bill to New York for acceptance, and then to have it returned to London duly completed, afterwards sending it to New York for payment, would entail much trouble and loss of time. This delay would be further increased if the proceeds of the bill were remitted to London. To avoid such delay, the drawers of the above-named bill can deal with it as follows.

They can discount the bill with their bankers, and if the drawers keep an account with the London branch of an American bank, the bill would be discounted with very little delay, as the bank would be quite conversant with the financial position of the drawees—which information we are already aware is of great importance to the banker when deciding as to discounting a bill. Should the drawers keep their account at an English bank, they might even then discount the bill with the London branch of the American bank, or as an alternative, the bill could be sold to a bill broker, as English banks do not discount very many bills payable abroad.[1]

The bill brokers (and foreign bankers in London) meet on every Tuesday and Thursday in the Royal Exchange, London, for the purpose of buying and selling foreign bills. It should be stated that the bill brokers have special knowledge and information with regard to the financial standing of banks, financial houses, and business firms in many different parts of the world.

[1] Recently several of the large joint-stock banks in London have given much more attention to foreign business than formerly.

By discounting the bill, the drawers are able to obtain the use of the money as represented by the bill (less the charge for discounting) at a very much earlier date than they otherwise would have done.

In cases where a bill is drawn upon a country not far distant, it may be sent to the drawees for acceptance and return. The bill may then be taken for discount to a bill broker, bank, or discount house (*i.e.*, a company whose particular business is bill discounting). Of course, where a bill is drawn upon drawees resident in a distant country, such bill will be discounted before acceptance—but of this we shall speak later.

In practice, most foreign bills are drawn payable to the order of third parties.

Noting and Protesting.

We have seen that it is usual (though not absolutely necessary) to note an inland bill dishonoured by non-acceptance or non-payment, and that on the second formal presentment by the Notary Public to the acceptor himself, or at the place where the bill is made payable, the notary records its non-acceptance or non-payment by writing upon a slip—*i.e.*, a noting ticket—the answer given. This slip is then attached to the bill. The object of noting a bill is to have an official record of the refusal to comply with the notary's demand for acceptance or payment.

In the case of a foreign bill, after it has been noted, it is then "protested." A "protest" is a document drawn up and signed by a notary, and contains—

(*a*) A formal declaration by a notary that he has presented a bill for acceptance or payment.

(*b*) Every particular of the bill.

(*c*) The reason given for dishonour.

Protesting is necessary in the case of foreign bills, since a protest signed by a notary is conclusive legal evidence of due presentation of a bill, and is looked upon in most foreign courts as the only proof of dishonour.

When a banker presents a bill for payment on the due date and such bill is dishonoured, the presentment by the notary must be made on the due date, but the actual document of protest is not usually drawn up until the next day. (See now the Bills of Exchange (Time of Noting) Act, 1917.)

It should be mentioned that noting or protesting a bill does not obviate the necessity of sending notice of dishonour to all parties. No notice, of course, need be sent to the drawee.

A dishonoured cheque bearing foreign endorsements *may* be protested. When a customer pays such a cheque into his bank, the former will usually be asked to give instructions as to whether or not the cheque is to be protested if dishonoured.

Should a customer pay into his bankers for collection, bills bearing foreign endorsements, and the bankers omit to protest the bills if dishonoured, since this omission will free the drawer and endorsers from liability, the bank would be held liable for any loss incurred by their neglect to protest. The extent to which the banker is liable will depend upon the particular circumstances of the case. Of course (as sometimes happens) if instructions worded " Incur no expenses " were on the bills, the collecting banker would be in order in not protesting.

Documentary Bills.

Very often a bill will have attached to it shipping documents referring to either the export or import of certain goods in respect of which the bill is drawn. Such a bill will be termed by a banker a " documentary bill." Conversely, when no documents are attached, the bill is said to be " clean."

Now let us deal with documentary bills at some length, as they are used to an enormous extent in connection with the export and import trades. In fact, the export and import trades are practically financed throughout by means of these bills.

Let us take a simple example. If a firm in Calcutta—whom we will term the Calcutta Machinery Company—desires to have sent to them from England a shipment of various kinds of machinery, the procedure will usually be as follows—

The Machinery Company will send to their buying agent in England, an " indent " giving full particulars of the machinery to be shipped to Calcutta. An indent is the name given to an order for goods received from abroad. The buying agents in England—whom we will term the Birmingham Trading Company—will then take the indent in hand and place orders for the goods. Many colonial houses have agents in England to attend to the purchase and shipment of goods.

Now, the Trading Company having purchased the goods, will make the necessary arrangements for shipment. When the shipping company is satisfied that the goods are on board in good order, it will usually (after payment of the freight) sign and hand to the Trading Company, three bills of lading, each containing identical particulars of the goods shipped, and bearing a sixpenny impressed stamp. As regards the freight on shipments, this is frequently paid in advance, so that we will assume the Trading Company to make this payment, as has been already noticed. Then it will be necessary to effect marine insurance on the goods. An insurance policy will be made out and will contain particulars of the goods to be shipped, together with the various terms of such insurance. The policy will generally be issued in duplicate ; and in cases where the policy cannot be prepared promptly, a slip called a " covering note " (or " cover note," as it is often termed) is given by the insurers as an undertaking that a policy will be duly issued.

In some cases, shippers have what is termed an " open " or " floating " policy, which is a policy for a round sum, *e.g.*, £20,000, £50,000, and so on. In this case, the particulars of each shipment are endorsed on the policy, instead of a new one being prepared.

The Trading Company will require the various suppliers of the goods to furnish invoices in " triplicate," *i.e.*, three copies. The Trading Company will next obtain the statement of dock charges, and also the railway company's invoices for carriage. Now, all the necessary documents having been obtained, the Trading Company will make out *its* statement showing the separate amounts of the manufacturers' invoices, to which will be added the various charges in connection with the shipment, namely—

Dock Charges
Freight,
Railway Carriage,
Marine Insurance,
Stamp Duty on Insurance Policy,
Bills of Lading,
Petty Disbursements,

and also the Trading Company's commission for conducting the business. When the required total has been arrived at, a bill of exchange—in a set of three—will be drawn by the Trading Company upon the Machinery Company. We will assume that the arrangement

is, that the Trading Company shall draw on the Machinery Company at thirty days after sight, in respect of each shipment. Therefore, the bill will be drawn in a set of three (the first only being stamped), in accordance with this arrangement. The majority of shipments of goods abroad are covered by bills drawn at "usance," *i.e.*, at the customary period for which bills are drawn between various countries. Of course, a shipment is sometimes accompanied by bills drawn at sight, but they are more frequently drawn at usance.

The Trading Company will now proceed to have the bills discounted. This will be done by forwarding them to the London branch of one of the Indian banks. Attached to the bills of exchange will be the invoices and bills of lading, both in triplicate, and the policy of insurance which is usually in duplicate. The bill department of the bank will examine the various documents to see that they are in order, and a cheque will then be sent to the Trading Company—after the bank has deducted its commission on the transaction. This charge by the bank is termed "Exchange received," and is credited to the account bearing that heading. It may be stated that the London branches of the various colonial banks derive very substantial profits in respect of discounting documentary bills. In many cases the drawers of documentary bills in England will be required to hand to the bank a "letter of hypothecation," which is an authority to the bank—duly signed by the drawers—by means of which the bank can, in the event of the bill being dishonoured, sell the goods and charge to the drawers any loss arising therefrom.

By the next outgoing mail, the bank will send to its Calcutta branch, the first bill of exchange (which will bear stamp duty) attached to which will be the bill of lading and relative invoices. These are termed by the bank "original documents." By the following mail the bank will send to its Calcutta branch the "duplicate documents," so that if the originals were lost in a shipwreck, the duplicates are available. The third copies of the bill of exchange, bill of lading, and invoices will usually be filed by the bank in its London office.

We see, therefore, that the bank has bought the bill (before it has been accepted) upon the security of the signature of the drawer, in addition to possession of the documents of title to the goods. The

drawee cannot obtain possession of the bill of lading and so secure the goods, until he has paid to the Calcutta branch of the Indian bank the amount of the bill of exchange. In some cases, arrangements are made with the bank to deliver up the documents upon acceptance only of the bill. In this case, a slip on which is written or printed "Documents on acceptance" will be attached to the bills, for the guidance of the Calcutta branch of the bank. Very often this notification will be stamped on the bill, and in other cases it may be written prominently in red ink. It is certainly preferable that the instructions be written *on* the bills, in order that there may be no dispute. Of course, where it has been arranged that documents shall be delivered on acceptance only, the drawers will be taking some risk, as we are already aware that they are liable in the event of the dishonour of the bill at maturity.

It may be mentioned that the branches of the various colonial banks in London receive from their over-sea branches frequent reports as to the financial position of the various parties on whom these documentary bills are drawn. Then, again, as a check upon an excessive amount of bills being discounted for any one firm, some colonial banks in London will keep a ledger generally called the "Drawers' Progressive Ledger," in which will be opened accounts for the various drawers. The bills discounted in London will be entered to the accounts of the particular drawers, and when the branches abroad send over advices—by each homeward mail—of the bills that are paid, the amounts as advised will be duly credited to the respective accounts. The bank will also keep a "Drawees' Progressive Ledger," in which will be posted to the specified accounts, the bills drawn upon the various drawees. Similarly, the bills that are advised by the colonial branches as being duly paid, will be placed to the credit of the particular account. With regard to the progressive ledgers above mentioned, they are so named because the balance is a progressive one; that is, there is a third money column which contains the balance only, and such balance is progressive, as it can be extended into this third column after each posting. The balance can thus be seen at once, without the necessity of casting up the debit and credit columns and then taking the difference, as is necessary in the case of ledgers generally used in commercial houses.

The foregoing remarks deal with documentary bills in respect of

outward shipments ; but a large number of inward shipments of goods are also financed by means of these documentary bills. Let us take a simple example.

Every year, many thousands of boxes of butter are shipped from Australia to this country, and the banks in Australia advance large sums in respect thereof ; that is, they buy the bill of exchange representing the shipment, and have, in addition to the security of the signature of the drawer, the documents of title to the goods. The bank in Australia will, of course, deduct their charge for discounting from the face value of the bill. Therefore, the discounting of these bills by the Australian banks results in large sums being ultimately paid to their London branches, since the drawees in England must pay over to the London branches of the Australian banks, the amount of the bills as they fall due, in order to obtain possession of the documents of title to the goods. Of course, where it is arranged that documents shall be delivered to the drawee on *acceptance* of the bill, the goods can consequently be obtained before the due date, since the drawee will be in possession of the bill of lading as soon as he accepts the bill. A drawee may also, if he desires, pay a bill before the due date—but with this we shall deal later on in the chapter.

Now let us deal briefly with one of these inward shipments. If a company in London—which we will call the English Provision Company—imports boxes of butter from Australia, the procedure with regard to the bill of exchange representing the shipment is similar to that already spoken of with reference to outward shipments. The Australian firm—which we will term the Commonwealth Butter Company—will take the triplicate documents (*i.e.*, bills of lading and invoices) and insurance policy in duplicate, to one of the banks in Australia, which, after seeing that the documents are in order, will buy the bill of exchange drawn by the Butter Company upon the Provision Company. The first bill of exchange will bear stamp duty, and attached thereto will be the bill of lading, invoices, and insurance policy. These original documents will be forwarded by the Australian bank to their London branch, and by the next mail the duplicate documents will follow. The third set will be retained by the bank in Australia. The London branch will present the bill to the drawees (*i.e.*, the Provision Company) for acceptance, as soon as possible after the arrival of the mail.

When the Provision Company pays the bill on the due date, the bank will deliver up the bill of lading—and any other documents attached—so that the Company may be able to obtain possession of the goods.

Sometimes documents are delivered by the bank upon acceptance of the bill of exchange, as has been already stated. This is a matter of arrangement ; but, of course, documents would only be delivered up to firms of very good financial standing.

From the foregoing remarks, we have obtained a general idea as to the manner in which both inward and outward shipments are usually financed ; and we can see at once the very important part played by banks in connection with the financing of the enormous volume of our exports and imports.

Payment under Rebate.

An acceptor of a documentary bill—in which documents are not given up against acceptance—may, on paying the amount of the bill less discount, obtain possession of the documents. This is termed by bankers " Payment under rebate," and is sometimes spoken of also as " Retiring bills under rebate." The banker, when discounting the bill in the first instance, charged a rate based upon the number of days until the due date. Therefore, when the bill is paid under rebate, the banker who holds the bill and documents will allow a discount (*i.e.*, rebate), as he will not have advanced against the bill for so long a period as was covered by his original charge.

The rebate will be calculated by taking the number of days from the day on which the actual cash will be received by the banker in whose hands the documents lie until the due date of the bill. The interest (*i.e.*, rebate) to be allowed by the banker is calculated at the rate of one-half per cent. above the advertised rate for deposits for short periods with the leading London Joint-Stock Banks. This deposit rate is 1½ per cent. below Bank Rate ; and Bank Rate is—to put it briefly—the rate charged by the Bank of England for discounting bills. Therefore, if a bill were paid under rebate when Bank Rate was 3 per cent., as the deposit rate of the London Joint-Stock Banks was consequently 1½ per cent., the rebate rate would be 2 per cent.

It does not follow by any means that where a bank has in its possession documentary bills, the parties on whom such bills are drawn have a current account with that bank.

When a documentary bill is taken up under rebate, a banker will "discharge" it. That is, he will mark the bill after the following manner, namely—

Received payment from
under rebate the day of at
per cent.

When documentary bills are taken up under rebate, the colonial banks in London issue a special form to those who are taking up (*i.e.*, paying) such bills. On this form the various bills that are to be paid are shown in one column, and there is another column into which the amounts of rebate are extended. The total rebate is deducted from the total face value of the bills, and the net amount is the sum to be paid over to the bank before the various bills and documents attached will be given up. This "Form for retiring bills" is handed to the bank by the firm which is taking up the bills; but before allowing rebate, the bank, will, of course, check the statement.

A documentary bill will not be delivered up by a banker, unless payment is made in legal tender, *i.e.*, gold coin or Bank of England notes. When a cheque is tendered in payment, the banker who holds the documents will not give them up until the cheque has been duly paid.

There are some other points to be explained with reference to foreign bills of exchange; but such explanations will be better understood when they are treated in a later chapter dealing with "Foreign Exchanges."

CHAPTER V

OPERATIONS ON CURRENT ACCOUNT

Issue of Cheque Books.

BEFORE a customer can draw on a current account, it is necessary that he should be supplied with a cheque book. If the new customer has not been introduced by an existing customer of the bank, considerable care is necessary before issuing a cheque book, and a banker is entitled to use reasonable precautions in this connection. For example if a customer when opening a new account, pays in certain cheques drawn on other banks, the banker will wait until such cheques are cleared, before issuing the cheque book. It can easily be seen that if an unscrupulous person obtains possession of a cheque book, he may draw cheques, perhaps for substantial sums, and induce unsuspecting tradesmen to cash them. If the cheques paid into the new account are found to be worthless, any cheques which have been drawn by the new customer are valueless, and if any tradesmen have been foolish enough to cash such cheques, these will be returned to them eventually by their own banks, and their money will be lost. It is for this reason that a banker often requires a cash payment to start with, or an open " bearer " cheque at least.

In cases where a person opens an account with a bank (without an introduction) and the banker asks for, say, two references, before issuing a cheque book an answer should be received to a communication sent by the banker, in which he asks to be favoured—in strict confidence—with an opinion from the referees as to whether they consider the new customer to be of good character, trustworthy in his business affairs, and a desirable person for the bank to deal with.

During the past few years there have been several cheque frauds perpetrated, and there is no doubt that in a few cases a banker has given out a cheque book without making quite sure that the whole transaction is perfectly in order. For instance, a person may bring to a bank, and open an account with cheques (and exhibit other banking documents) which are apparently all in order. The banker may, perhaps, be taken off his guard by a plausible tale

combined with the substantial amounts for which the cheques are drawn. In practice, it is very seldom that a banker gives out a cheque book to a new customer against cheques paid in which afterwards turn out to be worthless. It is fairly well known that most persons decline to cash cheques, and we can quite see the need for refusing to do this. Of course, where a tradesman knows one of his customers to be a thoroughly reliable man—having perhaps done satisfactory business with him for a considerable time—a small cheque may perhaps be cashed occasionally as a favour, but under no circumstances should anyone cash a cheque for a stranger.

There is hardly a banker of any repute who will accept a person as a customer unless he is either well acquainted with him or has had satisfactory references. But there are instances when the precaution is not taken, and then in opening an account the banker should insist upon a cash payment in the first case, as already referred to, and a cash payment of a substantial amount.

At the risk of an accusation of repetition, the caution as to a tradesman's cashing a cheque should not be too lightly considered. Let it be remembered that whereas a banker is exonerated from liability if he pays a cheque, drawn upon himself, which bears a forged endorsement, a tradesman is practically helpless if he chances to become the holder of such a cheque, as in his case there is no title obtainable through a forged endorsement. It is quite true that he may be able to pursue certain civil or criminal remedies against the person who has led him into his loss, but there cannot be much satisfaction in most cases by means of such a procedure.

Credits to Account.

The new customer will be supplied with a " paying-in book " which is made up of " paying-in slips " with counterfoils attached. The general arrangement of these books is very similar—especially in the case of London banks. There is more diversity of arrangement, however, in the paying-in books issued by the banks in the provinces. The general style adopted in the metropolis is shown on the next page.

The customer enters under the various headings the amounts he is paying in, and then makes a total. These particulars are repeated on the counterfoil. The cashier takes the book, checks over the amounts, stamps the counterfoil with a rubber stamp bearing the

name of the bank and date. The cashier will also place his initials on the counterfoil, and hand back the book to the customer, after having detached the credit slip which will be retained by the bank. This stamping and initialling constitute a proof of the receipt by the bank of the amount stated.

In the ruling given of a paying-in book, the cheques on London banks only are to be entered as indicated. Cheques on country banks are, as a rule, required to be entered on a separate slip.

THE BANK OF ESSEX LIMITED.

Lombard Street.

Date 19..

Credit .....

Bank Notes		
Country Notes		
Sovereigns		
Half-Sovereigns		
Silver and Copper ..		
Cheques on London		
Total £		

Customers are requested to have the counterfoil of this slip initialled by the Receiving Cashier.

THE BANK OF ESSEX LIMITED.

Lombard Street.

Date 19..

Credit .....

Bank Notes		
Country Notes ..		
Sovereigns		
Half-Sovereigns ..		
Silver and Copper ..		
Cheques on London		
Total £		

It is requested that Cheques on Clearing Banks be paid in before HALF-PAST THREE o'clock; on SATURDAYS, HALF-PAST TWELVE.

ALL CHEQUES SHOULD BE CROSSED.

When a customer pays in a considerable amount of silver or copper, the money will be packed usually in five pound bags for silver, and five shilling bags for copper. The customer will place his name on the bags which, if numerous, will be counted subsequently. Should any of the bags be found to be short, the customer's account may be debited with the deficiency; as, of course, when the bags were lodged at the bank they were taken to contain the full amount. Conversely, when any bags are found to contain more than the specified amount, the excess should be credited to the customer. No deficiency in silver or copper can be debited unless the bags are checked within a reasonable time after lodgment at the bank.

It is important that cheques should be paid in at once, for if they are held over there is the likelihood that the drawer may fail. Of course, where a cheque is post-dated there is no object in paying it in before the actual date it bears. Indeed, some banks very properly refuse to take in cheques until the date of their payment has arrived.

When postal orders are paid in, a banker will place his stamp upon them and obtain cash from the local post office, if payable there.

A banker is sometimes unwilling to take a large amount of bronze from a customer whose account is a comparatively small one. Bronze coins take up a considerable amount of room, and when they have to be sent elsewhere (*e.g.*, to another branch of the bank needing a large amount of bronze) the cost of transmission may be fairly heavy in proportion to the value. Of course, in towns where a bank has need of a large quantity of bronze, it is glad to take all that is paid in.

Before paying cheques in to the credit of a current account, the customer should endorse them (if order cheques) correctly. For instance, we know from a previous chapter, that if a payee's name in a cheque has been wrongly spelled, he should endorse the cheque so as to agree with the spelling given on the face thereof, and the usual signature should be written underneath the first endorsement.

Sometimes a customer pays in a cheque to the credit of his account, and, desiring to know as soon as possible whether it will be paid, requests his banker to wire to the bank on whom the cheque is drawn, asking if it will be paid. A wire will be sent to the paying

banker after the following manner: "Will X Y's cheque be honoured for two hundred pounds?"

A prepaid wire is attached, so that the paying banker may reply at once. His reply will be vague, as he does not care to guarantee payment of a cheque that he has, as yet, had no opportunity of examining. For instance, the drawer's signature may be forged or irregular, the endorsement may not be in order, or the cheque may contain some of the other irregularities which may exist. The reply will be intentionally vague as, "Yes, if in order," or "Would be paid if presented now and in order." The cheque will then be sent through the post by the collecting banker to the drawee banker (*i.e.*, the paying banker). There are a few bankers who will not answer telegrams of this nature, and, of course, they have the right to refuse to do so. A banker would not answer an inquiry made by a stranger, but a holder of an *uncrossed* cheque can send it through the post to the paying banker with a request that the amount may be returned in the shape of a banker's draft, postal orders, or notes. A banker's draft may be in the form of either

(*a*) A draft drawn by a branch of a clearing bank upon its head office; or

(*b*) A draft drawn by a non-clearing bank upon its London agents.

The banks who are not members of the Bankers' Clearing House, appoint a clearing bank to carry through their arrangements for clearing cheques. (This will be treated fully in a later chapter.) We know that a cheque will not be paid if it is crossed to two banks, but a cheque bearing the crossing of a non-clearing bank as well as its clearing agent, is in order. Similarly, a cheque crossed to two branches of the same bank, cannot be returned unpaid marked "Crossed two banks" as this is really a crossing to one bank only.

Paying Cheques.

When an uncrossed cheque is presented for payment over the counter, the cashier will examine the cheque to see that it is in order. He will notice that the drawer's signature is genuine, that the amount in words agrees with the amount in figures, and that the cheque is correctly endorsed. Further, the cashier will notice that the cheque is not post-dated nor "out of date." Generally speaking, a cheque is out of date when it has been issued more than six months. There is, however, no law on the matter; it is merely a question

of discretion and usage. Provided that the cheque is not six years old, the holder has always the right of suing any party to it for the amount of the same. A banker cannot demand identification of the payee of a cheque, unless there are any special circumstances justifying the making of inquiries. Therefore, if a cheque (uncrossed) payable to Brown, Jones & Co. and duly endorsed by that firm, was presented by their clerk at the drawer's bankers, the paying cashier would not be justified in asking for identification of the clerk, unless there were circumstances that warranted further inquiries being made. With regard to a cheque payable to bearer, we know that this requires no endorsement. Often, however, the paying banker requests the person who is receiving the money to write his or her name on the back of the cheque. A banker cannot demand this endorsement, and he must pay the bearer cheques of his customer if they are in order and there is a sufficient balance on the account. If, as sometimes happens, a bearer cheque has endorsements, the paying banker need not pay any attention to them. The name of a payee should be stated in a cheque, otherwise it will not be paid. Thus, in the following instance—

LONDON,

22*nd* April, 19..

THE BANK OF ESSEX, LTD.
100 LOMBARD STREET.

Pay or Order
the sum of Five pounds ten shillings and sixpence
£5 10s. 6d. HENRY JONES.

the Bank of Essex, Ltd., would return the cheque unpaid, marking it "Cheque incomplete," or "Payee's name and endorsement required."

It is most important for the drawer of a cheque to write both the amount in words and in figures close up to the left-hand side of the cheque, so that other words and figures cannot be placed in front, in order to increase the amount to be paid. Up to a few years ago it was generally understood that if a customer drew a cheque in such a manner as to permit the amount in words and figures to be increased, and the banker innocently paid the increased amount, the loss had to be borne by the customer, since it was caused by his negligence. However, some time ago, one of the Australian banks

was concerned in a legal action of this description, and although the fraud was rendered possible by the negligence of the customer, yet the bank in question lost the case. This legal decision created some surprise, and as there were special circumstances in the case, it is not easy to say whether the decision is a final pronouncement of the law on the subject. At any rate, the banker's position in cases of this description seems to be uncertain, though this may be stated as settled law, that the mere act of carelessness in drawing a cheque, which consists in leaving vacant spaces, will not be sufficient, if there is nothing else at fault, to make the drawer liable for any loss incurred. In spite of the printed instructions issued by bankers on the front of their cheque books urging that customers should commence writing cheques as close up to the left-hand side as possible, there are still many people who draw their cheques in a most careless fashion.

Many persons endorse in an unsatisfactory manner; sometimes they spell their names incorrectly, and at others they include titles of courtesy as a part of the endorsement. Whilst a banker is not liable should he pay a cheque bearing an unauthorised or forged endorsement, yet he examines endorsements with some degree of care, and will not pay a cheque that contains any apparent irregularity. We have considered various kinds of endorsements in a previous chapter, but the following additional remarks may here prove of interest.

(a) Limited Companies.

In the case of a cheque payable to the order of the Coal Mines Company, Ltd., and endorsed

" John Smith,
Secretary, The Coal Mines Company, Ltd.,"

such endorsement is not correct, and would not be passed by the paying banker. The endorsement is that of the Secretary as an individual, and is not made on behalf of the Company.

In the case of a cheque made payable to Brown, Jones & Co., Ltd., and endorsed

" For Brown, Jones & Co., Ltd.
In Liquidation "
J. Smith
H. Watson } Liquidators,

the banker on whom this cheque was drawn would not pay it. If, however, the *presenting* banker guaranteed that the endorsement was genuine, the cheque would be duly paid. A paying banker may go even further, and can ask for some evidence of the appointment of the liquidators. Generally speaking, however, such a cheque would be paid when the endorsement was guaranteed by the presenting bank.

When a cheque has been made payable to a limited company's order and such company's name has been wrongly stated, the cheque should be endorsed as under. In the case of a cheque made payable to the Essex Corn Company, Ltd.—

" For the Essex Corn Company, Ltd."
" For the Essex Corn and Flour Company, Ltd."
" Henry Wilson,
Manager,"

it is not necessary to repeat the name of the manager after the first description of the Company, but only after the second—the correct designation.

(b) Firms.

In the case of a cheque made payable to Brown & Son, and endorsed " John Brown & Son," it would not be paid, since the endorsement does not agree with the description given on the face of the cheque—in fact it might be some other firm.

When a cheque is made payable to say, Messrs. Smith & Son, or order, and is endorsed

" J. Smith & Son "

this is correct.

A banker would pay a cheque to the order of Messrs. Wilsons and endorsed simply " Wilsons." Also a cheque payable to the order of

" Messrs. E. Smith "

would be paid if endorsed

" E. and E. Smith."

But if endorsed " E. Smith " only, the cheque would not be paid.

Where a cheque payable to a firm is endorsed by another party, the paying banker is justified in asking for some evidence of the authority of the person who has signed the firm's name; *e.g.*,

in a cheque payable to the order of Jones, Brown & Robinson, and endorsed

" Jones, Brown & Robinson
Henry Wilson "

the paying banker would be justified in returning the cheque unpaid. He might mark such a cheque "Endorsement requires confirmation," or, " Endorsement irregular." The first answer is generally given, and the cheque would be returned to the paying banker after the presenting bank had written on the back, "Endorsement confirmed," followed by the bank stamp and the signature of an official duly authorised to sign in such cases. Endorsements made *per pro.* are now accepted by practically all banks in the country, but there is no legal compulsion whatever to accept them in cases where it is deemed desirable to have a confirmation from the collecting banker.

(c) Joint Payees.

Where a cheque is payable to more than one person, each should sign separately. For instance, in a cheque payable to the order of say, " The Misses Williams " and endorsed

" E. and A. Williams "

this is incorrect. There are some banks who would pav the above cheque if endorsed as

" Ethel and Ada Williams "

but this is not strictly correct. Each one should sign separately.

Similarly a cheque payable to the order of Mr. H. and Mrs. E. Brown, and endorsed

" H. and E. Brown "

is not correct. The cheque should be endorsed by each party separately.

(d) Executors.

An executor has full power to endorse for himself and his co-executors, so that a cheque payable to the order of the Executors of the late John Brown, and endorsed

" For Self and Co-Executors of the late John Brown,
William Jones "

is in order.

Executors have only a very limited power to delegate their authority as such, and a banker will not pay a cheque to the order of certain executors, which is endorsed by someone on behalf of them. For example, in a cheque payable to the Executors of the late Henry Wilson and endorsed

" *per pro.* the Executors of the late Henry Wilson,
John Brown "

the banker on whom the cheque was drawn would not cash it, unless he made some inquiry and was satisfied that the circumstances of the case rendered John Brown's endorsement necessary.

A cheque payable to the order of the Executors of the late Henry Jones and endorsed

" James Johnson, Executor of the late Henry Jones "

is irregular. The endorsement must state that the executor who signs does so for his co-executors, as shown at the commencement of this section dealing with endorsements of executors.

(e) Sole Payees.

No title of courtesy should figure in an endorsement, and if a cheque payable to Mrs. A. E. Jones were endorsed

" Mrs. A. E. Jones "

it would be returned marked " Endorsement irregular."

But if the endorsement were

" (Mrs.) A. E. Jones "

the cheque would be paid.

It cannot be stated that, legally, the addition of a courtesy title makes the endorsement invalid; it is merely irregular. The custom at the present time, however, is to discourage strongly the practice of endorsing cheques in this manner.

Should a cheque be made payable to a payee without an initial or Christian name stated, as, for instance, to " Brown " or order, if the endorsement were simply " Brown," the banker on whom the cheque was drawn would not pay it. The writing of a surname without an initial or Christian name is not taken as a signature according to English law. In foreign countries, however, the

writing of a surname only, constitutes a signature. In the foregoing instance should the cheque be endorsed as

" J. Brown "

it would be paid.

It is of interest to note that the abbreviations " Mc " and " Mac " cannot be interchanged ; so that a cheque made payable to John McNab and endorsed

" John MacNab "

is not correctly endorsed and should not be paid.

In the case of a cheque made payable to John Jones, Senior, and endorsed merely,

" John Jones "

this is in order, and the cheque would be paid.

Endorsements on Dividend Warrants.

When a dividend warrant is made payable to two or more persons, it is the custom of bankers to pay the warrant if signed by one payee only.

Most dividend warrants have printed at the foot the words " Signature of proprietor," with a line following for such signature. If the payee were to endorse the warrant on the back in the same way as a cheque, the banker on whom the warrant was drawn would not return it unpaid. A payee of a dividend warrant, however, will be required by a banker to sign in the place indicated whenever possible.

Paying Against Uncleared Cheques.

When a customer's credit is of an indifferent character, a banker will not allow him to draw against country cheques until they are cleared. Of course, where a customer keeps a good balance, if a country cheque paid in *was* returned unpaid, there would in all probability still be a fair amount standing to the credit of the account. It is in cases where practically the whole balance of an account is composed of uncleared country cheques, that the banker will not permit the customer to draw against them—in the absence of an express agreement on the matter. We know from a previous chapter that cheques returned unpaid under the above circumstances are marked by the banker returning them " Effects not cleared." Frequently this answer is supplemented by the words " Present again."

It should be mentioned that a banker, once having credited a customer's account with cheques as cash, is not *legally* entitled to return that customer's cheques with the above-named answer, in the absence of a special agreement on the point. Of course, to open a suspense account and post to the credit thereof uncleared cheques paid in, and when such cheques are duly paid to reverse that entry by debiting the suspense account and crediting the customer's current account, would entail a very large increase in the volume of clerical work. The practice of bankers, however, is to place all cheques to the credit of the customer's account when paid in, marking the amount of country cheques in some readily recognisable manner in those cases where the customer's credit is of an indifferent nature.

A good many banks enter the total of a customer's paying-in slip in the pass-book as " Cash." Should such total include uncleared country cheques—as it often will do—it is probable that, if the point were contested, a banker would be held liable for returning a cheque drawn by the customer, and marking it " Effects not cleared."

In the case of customers who pay in country cheques to their credit, some banks will debit the account with three days' interest on the amount of such cheques ; since the customer is credited with certain sums three days before the banker receives payment of the cheques, *i.e.*, until they are cleared, or paid by the banks on whom they are drawn. In entering this charge in the pass-book, the banker does not specify that it is in respect of interest on uncleared country cheques. The amount will be termed " Commission " or " Charges " ; frequently the wording is " Commission and Charges " or " Interest and Commission." Different banks of course use various terms, as given above. The charge in respect of interest on uncleared cheques would not be made in cases where a customer maintains a substantial balance, since such a charge would very probably cause the customer some displeasure.

Paying in at Another Branch.

A customer may pay in at any of the branches of the bank that keeps his account, and there is no charge made for this facility. The branch receiving the paying-in slip will proceed to collect the cheques (if any) and will communicate with the branch where the account is kept, giving the amount paid in, and stating how it is

made up. In several banks the paying-in slip itself will be enclosed with the letter of advice, and will be posted so as to reach the branch where the customer's account is kept, the day following.

Base Coin.

When a customer pays in to his bank a coin which is found to be base or counterfeit, the cashier will generally break it in two, hand it back to the customer and request a genuine one in its stead. As a matter of fact, *any* person to whom a counterfeit coin is tendered, is required by law to cut, break, bend, or deface it, and the loss must be borne by the person tendering such coin. It should be noted that the above remarks apply also to any coin which has been diminished in weight otherwise than by reasonable wear.

Wiring Fates of Cheques.

When a customer pays in country cheques it will be three days before they are paid, *i.e.*, cleared. Sometimes a customer wishes to know as soon as possible, whether a particular cheque will be paid by the bank on whom it is drawn, and requests his banker to ascertain the "fate" of the cheque by wire. Let us take an example. Suppose a customer pays in a cheque to his bankers, whom we will assume are, say, the Chelmsford Branch of the Bank of Essex, Ltd., and the cheque paid in is drawn on another imaginary bank which we will call the Bank of Surrey, Ltd., Guildford. The customer for some reason of his own, requests his bankers at Chelmsford to obtain advice of payment of the cheque by wire from the drawer's bankers, namely, the Bank of Surrey. Now we already know that if the Bank of Essex wires to the Bank of Surrey thus "Will X Y's cheque one hundred pounds be paid?" the latter, not caring to guarantee payment of a cheque it has had no opportunity of examining, will answer (on the prepaid telegraph form which will be enclosed) in an intentionally vague manner, *e.g.*, "Yes, if in order," or "At present." An answer similar to those just given is obviously not conclusive. If the customer is able to wait until the day after he has paid the cheque in, his bankers can, on the morning of the second day, inform him definitely whether the cheque has been paid or not. Therefore, if the customer pays in a cheque to the Bank of Essex on a Monday, and states that he will call again on Tuesday morning to know if the

cheque has been paid, the procedure will be as follows. The Bank of Essex will place their crossing stamp on the cheque, and post it to the Bank of Surrey, Guildford, with a communication requesting that a wire may be sent to the Bank of Essex, Chelmsford, notifying the fate of the cheque. The Bank of Essex will attach a telegraph form to the cheque, which form will be addressed back to themselves and will bear a sixpenny stamp for the reply. The Bank of Essex will write on the telegraph form " Cheque is " and all the Bank of Surrey will have to do will be to place the word " paid " or " unpaid " on the form, and hand it in at the local post office. When the Bank of Surrey receives the cheque, letter of advice and prepaid telegraph form, it will examine the cheque to see that it is in order and that the drawer has the necessary sum standing to his credit. The fate of the cheque will consequently be known to the Chelmsford branch of the Bank of Essex on the Tuesday morning.

The imaginary cheque that we are here dealing with will be retained by the Bank of Surrey at Guildford if it is paid. If unpaid, it will be returned by post to the Bank of Essex. In the ordinary course of events, cheques on banks situate outside the town are sent to London for payment through the Clearing House, which will be explained in a subsequent chapter.

In cases similar to the one we have been discussing, where it is desired to know the fate of a cheque in a less time than the three days that would elapse were it sent through the London Clearing House, the cheque is sent direct to the branch on which it is drawn, as already described.

Now the customer of the Bank of Essex will, of course, be required to pay the cost of the sixpenny telegram. His account, however, will be usually debited with one shilling, the additional sixpence being charged by his bankers in view of the extra trouble they have been put to in the matter.

Cheques should be Crossed when paid in.

It is very important that a customer should cross his cheques before paying them in to his banker. In order to see why this is so, it is necessary to refer to the Bills of Exchange Act, 1882, which Act largely governs the law relating to cheques. Section 82 states—

" Where a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner of the cheque by reason only of having received such payment."

At first sight it would appear that the above section affords full protection to a banker collecting a cheque crossed in the way indicated. But a defect was discovered in the wording, which was rectified by the passing of a very short Act of Parliament in 1906, after considerable pressure had been brought to bear upon the point by bankers. The point arose as to the interpretation of the words *receives payment for a customer*. Now the usual custom of banks is to place cheques to the credit of a customer's account as soon as they are paid in, and before they have been presented for payment to the banks on which they are drawn. It was argued that, as soon as the banker credited the customer's account with cheques before receiving payment thereof, he (the banker) ceased to hold the cheques on the customer's behalf. In other words, by crediting cheques to a customer's account as soon as they were paid in, the banker was not receiving payment *for the customer* but *for himself*. Therefore, when the banker subsequently presented the cheques to the banks on which they were drawn, he could not be said to be receiving payment *for a customer*, within the meaning of Section 82 of the Bills of Exchange Act, 1882, as quoted above.

As soon as this defect was discovered, the position was a very unfavourable one from the collecting banker's point of view, as, by crediting cheques to a customer's account as soon as they were paid in, no protection would be afforded to the banker, should the customer have no title or a defective title to the cheques. Of course, if the banker waited until the cheques were paid and *then* credited the customer's account, the former would be protected from any liability in the event of any defect in the customer's title, as stated in the above-named section. But with the great multiplicity of modern banking transactions, the waiting till cheques were cleared and then crediting the customer would involve a very large increase in the amount of a bank's clerical work. Pending the passing of the amending Act above referred to, there were some banks that altered their systems of book-keeping so as to credit the customer when the

cheques were actually paid. On the other hand, there were some banks which still continued to credit the cheques as soon as paid in, and took the risk.

The amending Act previously referred to (which came into force on 4th August, 1906) is a very short one, and consists of only two sections, namely—

"1. A banker receives payment for a customer within the meaning of section eighty-two of the Bills of Exchange Act, 1882, notwithstanding that he credits his customer's account with the amount of the cheque before receiving payment thereof.

"2. This Act may be cited as the Bills of Exchange (Crossed Cheques) Act, 1906, and this Act and the Bills of Exchange Act, 1882, may be cited together as the Bills of Exchange Acts, 1882 and 1906."

It will at once be seen that the words "notwithstanding that he credits his customer's account with the amount of the cheque before receiving payment thereof," place matters on a satisfactory footing from the banker's point of view.

It should be noted that the word "customer" in the above-named Act means a customer of a bank in the ordinary sense of the word; so that a banker who collects a cheque for a stranger cannot claim the protection afforded by the above-mentioned Act, should it be subsequently found that the stranger had no title or a defective title to the cheque.

Furthermore, a banker cannot obtain protection against defective title as above described, by *himself* crossing uncrossed cheques paid in. The cheques must be crossed when they are handed over the bank counter. This will explain why it is that cashiers request customers to cross cheques when paying in.

With regard to dividend warrants, the majority of them are not cheques at all, although they are often looked upon as such. Let us see why this is so. In the first place, we know that a cheque is a bill of exchange drawn upon a banker payable on demand. Secondly, we know that a bill is an "*unconditional* order in writing, etc." Therefore, since a cheque is a bill of exchange, and a bill of exchange is unconditional, consequently a cheque must be unconditional. Now a good many dividend warrants contain a foot-note stating in some cases that an attached form of receipt must be signed, or in others that the warrant must be presented for payment within

a certain time—frequently three months. Now these documents are not cheques, for the reason that they are *conditional*, that is, payment is made conditional upon a certain form of receipt being signed, or the warrant being presented for payment within a specified time, as the case may be. Of course, there are some dividend warrants that are cheques, as no conditions are imported therein. In the case of warrants containing clauses as mentioned above, it is very doubtful whether a collecting banker can claim the protection afforded by the Bills of Exchange Acts, 1882 and 1906, as previously explained, should the customer have no title or a defective one. Experts are unable to agree on the point, although the matter has been frequently discussed.

Accounts of Trustees and Executors.

It has been stated in the first chapter that a prudent banker avoids, as far as possible, the opening of an account in the names of trustees or executors; because if he is aware of the existence of a trust, he is saddled with a heavy responsibility in that he is more or less answerable for seeing to the proper application of the funds in his hands. But if once the money is paid out the responsibility ceases. The banker, consequently, is much averse to opening a trust or executor account in his books, and to ear-marking any particular funds in such a manner as to render it apparent that the account is in the nature of a trust. Some additions to the name of the customer, however, may be safely made. For instance,—

"John Jones. Account No. 1,"
"John Jones. Account No. 2,"

merely ear-mark the accounts. There is no indication of the above being in the nature of a trust, and customers frequently open accounts headed in the foregoing manner. It has been decided that "Office Account" or "House Account" does not affect a banker with notice of a trust.

Now let us consider the question where a banker is obliged to open an account with trustees or executors as such, for he *sometimes* does so, although as a general rule he is not desirous of opening accounts of this description; *e.g.*—

"A B C & D. Executors of E F."
"A B & C. Trustees of D E."

As regards executors, they are legally considered as one person

and one of them may act for the whole body. Consequently a cheque may *legally* be paid if drawn by one executor. The custom of bankers, however, when an executorship account is opened, is to require a written authority to be signed by *all* the executors instructing the banker to pay cheques if drawn by one—or more—of their number.

Trustees occupy a different position. They must be treated as distinct individuals, and therefore a cheque cannot be paid when drawn by one trustee only. There are some banks which will accept a written authority signed by all trustees on a particular account authorising that cheques are to be paid when signed by say, any one or two of their number. There is no doubt that such a course is undesirable, and a prudent banker would not accept such an authority. Trustees are appointed for the purpose of combined action and joint custody of particular funds, and it is certainly not consistent with their duty to delegate their powers in such a manner as to enable a minority to have exclusive control in operating on a trust account.

There is no liability attached to a banker by paying cheques drawn in correct form by trustees, but for a fraudulent or improper purpose. This would involve inquiry into the rights of third parties, which is no part of a banker's right or duty. A banker is responsible for the fraud of the trustees, if it is facilitated by him ; and he would very probably be held to be facilitating fraud by accepting and acting on authorities signed by a body of trustees, authorising that cheques should be paid when signed by a minority of the trust. The knowledge that an account is a trust account, renders it necessary for the banker to make some inquiry into the terms of the trust. For instance, it may be that under the instrument creating the trust, the trustees must always consist of a certain number ; and it does not follow by any means, that surviving trustees have power to continue the operating of an account, as is the case with executors.

With respect to trust funds, the liability of the banker arises in the following manner. If a banker receives payment of money, which is made on account of any fund, and he is aware under any circumstances, it does not at all signify how, that there is a species of trust attached to the fund, that is, that the money is not paid in on behalf of the person who pays it as an individual but as a representative of some other person, the banker may be held liable

in case there is any misappropriation, and consequently he may have to refund the sum which is improperly applied.

It is for this reason that a banker should avoid anything in the routine of his business which is not of a personal character with his customer. So long as dealings are between man and man, difficulties of an abstruse character cannot arise. But directly there is the intervention of a trust the whole character of the business changes. The law is very jealous as to trust matters, perhaps very rightly so. And it is for this reason that the prudent banker, recognising his peculiar business status, should avoid any contact with trusts in any shape or form. There is nothing harsh about the matter. The banker must be, in the interests of the community, a business man pure and simple, that is, if he is to be a really useful member of the community. The sentiment attached to trust matters must be left to other individuals.

Bankers' References.

When a customer's account has been in operation for some time, the banker may be communicated with by another banker asking for a report as to the respectability, means, and standing of the customer. Let us take a convenient example. If A, who is a stranger to B, desires to purchase goods on credit from the latter, B will naturally desire to have some information as to A's respectability, means, and standing. B will therefore request his bankers to obtain the necessary information from A's bankers. If the value of the goods to be purchased is, say £200, B would request his bankers to make an inquiry as to whether A might be trusted in the way of business for say, £250 or £300. It is usual to name a sum greater than the amount of the proposed credit. B's bankers will accordingly make the inquiry on a printed form of letter of which the following is a specimen—

THE BANK OF ESSEX, LIMITED,
CHELMSFORD BRANCH,

----------19----

Dear Sir,

I shall feel much obliged by the favour of your opinion in strict confidence of the means, standing, and respectability of

---

---

and by your informing me whether_____ may be considered trustworthy in the way of business to the extent of _____

Yours faithfully,

_____

Manager.

The blank spaces will be filled in by B's bankers, and the letter sent to A's bankers, who will give their reply on a printed form of letter, of which the following is a specimen—

THE HOME COUNTIES BANK, LIMITED,
GUILDFORD BRANCH,

_____19____

Private and Confidential.

Dear Sir,

re_____

In reply to your inquiry of_____I beg to inform you that_____

_____

This information is for your private use only, and is given on the understanding that no responsibility is incurred either by the Bank or its officials.

Yours faithfully,

_____

Manager.

A's bankers will fill in the required information in the blank space provided above, and send the letter to B's bankers, who will communicate the contents to B.

It should be mentioned that a banker will not answer an inquiry made by a private individual. With reference to the various trade protection societies, there is no doubt that some of their information is obtained from banks. There are some banks who decline to answer inquiries made by these societies, but the inquiries would be answered if made by the bankers of the societies. When answering an inquiry, a banker does not, of course, specifically disclose the condition of his customer's account. A banker is very probably under a legal obligation not to do any act which would injure a customer ; and there is no doubt that undue disclosure of an account

would come under that heading. It is certainly the usual custom of bankers to treat the state of a customer's account with great privacy; and a banker is quite at liberty to decline to give information, no matter how desirous an applicant may be of obtaining it.

When answering inquiries, a banker chooses his words with some care. On the one hand he desires to give as good a report of the customer as the state of the account will warrant, and on the other hand he does not wish to over-estimate the financial standing of the customer, since the dispensing of credit will usually be made as a result of the answer given.

In answering inquiries, a banker must base his reply upon the state of the customer's account, and not introduce outside factors. If an inquiry is made with regard to a customer whose account has been in operation for only a short time and is rather a small one, the banker will generally answer after the following manner—

"re_____

"The above is respectable but we have not sufficient knowledge of his means to speak as to your figures, the account having only been opened with us quite recently."

The banker may go a little farther and reply—

"re_____

"We know little of the means of the above whose account was only opened with us recently, and are unable to state whether he is in a position to be trusted for your figures. We are, however, disposed to doubt it, judging from the account."

Neither of the above replies can, of course, be considered as satisfactory.

Now let us take an example of a thoroughly satisfactory reply to an inquiry. This may be worded as follows—

"re_____

"The above does a very good business and has kept a satisfactory account with us for many years. He obtains credit for larger amounts than the figures mentioned by you. We consider that no hesitation need be shown in granting him the stated accommodation."

The following would be an example of an unsatisfactory reply—

"re_____

"The above is respectable, but is very short of capital. His

account is frequently irregular, and your figures are much larger than we are accustomed to see."

Sometimes a banker will give an answer as under, to an inquiry in respect of a customer who is doing his best to build up a business in the face of some difficulties—

"re_____

"The above meets his engagements regularly, and whilst your figures are larger than we generally see, we do not think he would enter into an agreement that he could not carry out."

We have already mentioned that there are some banks which will reply to inquiries made by the recognised trade protection societies. It is very questionable, however, whether this is a right and proper occasion for a banker to disclose to third parties information concerning a customer's financial position; and there is no doubt that recently bankers have exercised even greater care than formerly in this connection.

A case was before the courts some time ago, dealing with the liability attaching to a bank manager who gave a reply to an inquiry made by another banker. At one stage of the action, the position appeared to be a very unfavourable one from the point of view to bankers generally, but finally the case was decided in favour of the bank manager concerned. It will, no doubt, be of interest to discuss the case above referred to. The facts were as follows—

The plaintiff desired to invest money in a company known as Gilletts, Ltd., who carried on their business at Hounslow, in Middlesex. He requested his bankers, the Chipping Norton Branch of the Metropolitan Bank (of England and Wales), Ltd., to obtain a report on the financial position of the Company. The Metropolitan Bank applied for the necessary information to the Company's bankers, the Feltham Branch of Messrs. Barclay & Company, Ltd. The Manager of Barclay's Bank sent a letter to the plaintiff's bankers saying that the Company was apparently doing a genuine and increasing business, and the two managing directors of the Company were men of experience in that particular form of business. The manager added that the letter was for the private information of the Metropolitan Bank only, and no responsibility would be taken for the information given. This, of course, is in accordance with the form of letter already given. It should be understood, however, that the wording used by banks when answering inquiries

is not the same. Also the form of letter we have given above is not used by any particular bank, but approximates to the general manner in which banks answer inquiries. Some banks have recently altered this form, but of this we shall speak later.

The Chipping Norton Branch of the Metropolitan Bank, communicated with the plaintiff, giving substantially the same information as was contained in the letter from Barclay's Bank, which letter was retained by the Metropolitan Bank. The plaintiff subsequently invested money in Gilletts, Ltd., but lost it. He thereupon sued Barclay's Bank, or alternatively their Feltham manager for damages for misrepresentation.

In due course the action came on for hearing. The proceedings against the bank, however, were soon abandoned, as the wording of an old Act of Parliament was found to relieve the bank of liability. The case was accordingly proceeded with against the manager of Barclay's Bank who had signed the letter.

Now it is worthy of note that a person cannot be made liable for making any representation bearing upon another individual's financial standing or credit, unless the statement be in writing and duly signed by the person making it or by his authorised agent. Accordingly, there are some banks which do not reply to inquiries in the form of a letter as already shown, but write the reply in the form of a memorandum, *i.e.*, with no signature attached. In fact the word " Memorandum " is boldly printed on the note-paper used.

In this case, the summing up of the Judge was in favour of the plaintiff, and the jury found against the manager of Barclay's Bank, Feltham, for £1,100. The manager appealed against this decision, and the appeal was upheld by the Court of Appeal The Master of the Rolls in reviewing the various facts of the case, made the following remarks—

" I come to the conclusion that it was altogether wrong to say that this gentleman, Mr. Goddard, was guilty of fraud in making a statement which seems to me to have been perfectly honest, perfectly fair, and perfectly right. I desire for myself to repudiate entirely the suggestion that when one banker is asked by another for a customer such a question as was asked here, it is in any way the duty of the banker to make inquiries other than what appears from the books of account before him, or, of course, to give information

other than what he knows from his personal knowledge. I repudiate altogether the idea that it is any part of the obligation of a banker receiving a letter of this kind to go about and make inquiries, such as, ' Is yours a profitable business, or, is it a paying business, or, is it a business in which I should be inclined to invest money myself ? ' and that he is to be held guilty of fraudulent conduct if he fails to do so."

In the above case the whole assumption was, that the communication as to a customer's financial position was between banks, which may be relied on to make a tactful and legitimate use of the information obtained. Therefore, it is desirable when inquiries are made by trade protection societies from a bank, as to a customer's financial position, for the bank to request that such inquiries be made by the bankers to the above societies. It is very probable, however, that the number of banks which will answer inquiries made by the various trade protection societies is now less than formerly, owing to the increased care exercised in the matter of bankers' references as the outcome of the case we have just discussed.

CHAPTER VI

THE BANKERS' CLEARING HOUSE

Introductory Remarks.

A CONSIDERATION of the enormous number of payments that are made by means of cheques (and bills) renders it obvious that some simple—but nevertheless, sound—system must be in operation, in order to cope successfully with the huge number and volume of transactions represented by cheques and bills. As a result of the rapid growth of the system of joint-stock banking in the United Kingdom, payment by cheque is carried on to a greater extent than in any other country.

A very small proportion of the cheques that are issued are presented for payment to the banks on which they are drawn, and cash or notes obtained in exchange. The great majority of cheques are paid through the medium of the various clearing houses in the country, of which the London Clearing House, situated in Post Office Court, Lombard Street, is the most important.

Origin of Clearing System.

It is very clear that there must have always been many mutual obligations between banks. Thus, the *A* bank might have fifty or a hundred cheques and bills drawn on the *B* bank, and the *B* bank would probably have a considerable number of cheques and bills drawn upon the *A* bank. In the primitive method of dealing with them a clerk from each bank would present the cheques and bills at the other bank and receive notes and gold in exchange. This necessitated the use of much money. At last it occurred to one of the clerks of Messrs. Fuller's Bank, a man of the name of Irving, that the whole work might be accomplished just as well if the clerks met at some fixed place and exchanged the obligations of the bankers, the differences alone being paid in money. Although it was very obvious that such a method saved time and allowed of large transactions being carried out with the use of very little money, it was not received at first with anything like favour by the majority of the bankers. However, a few clerks began to meet daily in 1775, at a room in Change Alley, and there they exchanged cheques and

money. These meetings were quite voluntary and informal; but the advantages of the scheme were gradually perceived, and bankers were anxious to join what began to be known as the Clearing House. It was not always easy for them to do so, as the body of bankers who composed it became a somewhat exclusive body, and absolutely refused admission to the early joint-stock banks.

The room in Change Alley was soon found to be too small for the transaction of business, and a room in Lombard Street was hired in 1805. Nine years later a change again took place, and the present building was chosen. A hundred years ago there were forty-six bankers who cleared through the House. In 1854 the joint-stock banks were admitted, and the Bank of England joined in 1864.

Until 1854 the mutual obligations of bankers were settled by the payment of the differences between the various members of the House in cash or in Bank of England notes. But in the year just named a great change was effected by each member of the Clearing House being compelled to keep an account with the Bank of England. Then it was that the payment of differences in money became a thing of the past. Each clearing banker drew a cheque at the end of the day upon the Bank of England in favour of any clearing banker to whom he was indebted as a result of the day's clearing, and nothing further was required in the way of settlement except a transfer in the ledger of the bank.

The advantages of the clearing system were extended to the country in 1858, and now country cheques, except certain local ones, are paid through the Clearing House by means of the London agents of the country bankers.

If any banker is not a member of the Clearing House, the old cumbersome method of sending round clerks is still necessary, and cash has to be transmitted from one bank to another just as it had to be before the clearing bankers had their accounts at the Bank of England. If a bank which is not a member of the Clearing House has a city agent, the usual method is to pay by means of a draft which is passed through the Clearing House.

Some Clearing House Figures.

The total amounts presented through the London Bankers' Clearing House are enormous—and the totals increase annually.

The following table shows the official totals cleared during the past ten years, and the amounts are so huge as to be almost incomprehensible.

Year.	Total Clearings.	Fourths of the month.	On Consols Settling Days.	On Stock Exchange Account Days.
	£	£	£	£
1908	12,120,362,000	456,667,000	645,046,000	1,672,498,000
1909	13,525,446,000	510,173,000	677,847,000	2,129,205,000
1910	14,658,863,000	596,865,000	733,430,000	2,261,385,000
1911	14,613,877,000	568,736,000	678,652,000	2,218,700,000
1912	15,961,773,000	643,156,000	725,293,000	2,362,212,000
1913	16,436,404,000	662,288,000	781,892,000	2,082,031,000
1914	14,665,048,000	612,526,000	515,566,000	1,481,780,000
1915	13,407,725,000	537,247,000	589,654,000	1,025,775,000
1916	15,275,046,000	638,578,000	680,381,000	1,238,039,000
1917	19,121,196,000	837,165,000	881,824,000	1,521,194,000

The fourth of each month is always a busy day, for that is the date upon which many trade bills fall due. Owing to our system of credit, bills in payment of trade debts are exceedingly common, and it is the practice for traders to draw their bills upon the first of the month. These bills are drawn for one, two, three, four, or six months after date, and consequently they fall due, allowing for the three days of grace, upon the fourth of the month, unless that date happens to be a Sunday or a Bank Holiday, and then it will be the third or the fifth of the month which is such an important date for payment.

Consols settling day—which occurs once a month—is also a heavy day. On that occasion, a large number of cheques are passed between members of the Stock Exchange in payment of purchases and sales of Consols.

It will be observed that the total clearings on Stock Exchange account days are enormous. On these days—which occur about once a fortnight—the differences existing between the various members of the Stock Exchange as the result of their dealings with each other since the last account day, are settled by means of cheques on clearing bankers.

Such days as the first of January, April, July, and October, are also very busy, as on those dates many dividends are payable.

The largest weekly total of clearing for 1917 was in respect of the week ending the 7th March, namely, £540,796,000, which

constitutes a record. The smallest weekly total was in respect of the week ending the 11th April, namely, £253,111,000. This is, of course, obviously due to the Easter holidays. The smallest total for a week consisting of six working days was the week ending the 28th March, when the total was £308,346,000.

Turning to the daily totals, we find that the largest amount cleared during 1917 was on the 3rd March, namely, £127,154,000. The smallest daily amount cleared during 1917 was on the 7th July, namely, £43,058,000.

The year 1917 achieved a fresh record in the Clearing House Returns. The constant flow of Government borrowings by the Loan in the early part of the year, and subsequently by Exchequer and National War Bonds, together with the frequent issue and payment of Treasury Bills, and the phenomenal payments by the Government in other ways, have had their effect on the Clearing House Returns, though it is difficult to form any precise estimate of its magnitude.

It may be noted that no daily record is kept of the total number of cheques, etc., passing through the London Clearing House; but on very busy days it is estimated that over one million vouchers have passed through the Clearing House. In spite of the multiplicity of operations dealt with, it is not an infrequent occurrence for the balance at the end of the day to be absolutely correct when business closes.

Local Clearing Houses.

In addition to the London Bankers' Clearing House, there are local Clearing Houses in the following provincial towns, namely, Birmingham, Bristol, Leeds, Leicester, Liverpool, Manchester, Newcastle-on-Tyne, Nottingham, and Sheffield.

The provincial clearing houses have been established for the purpose of saving time and trouble in transmitting cheques to London, and they deal only with those cheques which are drawn upon banks situated within a certain radius of the respective towns. When the transactions are between banks which do not fall within the radius, the London Clearing House is the proper medium. Thus, if a cheque is drawn upon a Sheffield bank and paid into another Sheffield bank, the local clearing house is the one which is utilised in settling the payment. But if a cheque is drawn upon a Sheffield bank and paid into a Nottingham bank, the cheque is sent to

London, and the settlement is made through the London Clearing House by the agents of the parties. Following the plan of the present establishment, local differences are settled by cheques drawn upon the local branch of the Bank of England, where there is one. If there is no such branch, the bankers agree amongst themselves as to the method of arriving at a settlement.

The following are the official totals of clearings in the above provincial towns in respect of the year 1917.

	£
Manchester	561,780,811
Liverpool	427,154,554
Birmingham	110,449,578
Newcastle-on-Tyne	88,874,700
Bristol	49,492,000
Sheffield	49,378,474
Leeds	43,718,234
Leicester	29,999,122
Nottingham	25,805,865
Total of Provincial Clearing for 1917	£1,386,653,338

In Scotland there are clearing houses at Edinburgh, Glasgow, Aberdeen, Dundee, Greenock, Leith, Paisley, and Inverness. In Ireland, the only clearing house is in Dublin. The Scotch and Irish banks are not members of the London Clearing House, although there have been several attempts to secure their admission. The clearing system was practised in Edinburgh before it took root in London.

In spite of the fact that the clearing system is so advantageous, there has as yet been no arrangement made for international clearing—a great drawback and also a financial loss.

The Principle of the Clearing.

The principle on which the Clearing House is worked, is by an enormous extension of the system of book credit. Although almost incomprehensible sums are dealt with, no money passes. The arrangement has been brought to a high state of perfection, and there is no doubt that the operations of the Clearing House are of very great assistance to the financial world, inasmuch as the conclusion of commercial transactions is considerably assisted by the economy of time and labour effected. Now let us take some simple examples for the purpose of illustrating the above principle.

In the first place it is well known that every London Clearing Bank keeps an account at the Bank of England. If, as a result

of the daily exchange of cheques between the A Bank and the B Bank, there is a balance due to the former of, say, £20,000, this could be settled by B Bank handing to A Bank a cheque on the Bank of England for the above sum. The cheque would be placed by the Bank of England to the credit of A Bank and to the debit of B Bank; consequently the amount would be duly adjusted. As there are seventeen banks at present members of the Clearing House, the operation of the above method would, of course, involve each of them either receiving from, or paying to, each of the other sixteen a cheque representing the balance of the daily exchange of cheques. This is obviated, however, by the keeping of an account in the books of the Bank of England, known as the "Clearing Bankers' Account"; consequently, transfers are made either—

(*a*) By debiting the account of a clearing bank and crediting the account of the Clearing Bankers; or

(*b*) By debiting the account of the Clearing Bankers, and crediting the account of a clearing bank, according to whether a bank has to receive or pay as the result of the daily exchange of cheques.

We will further explain the principle by means of some simple examples.

If we assume that there are only four banks in the clearing, which we will call A, B, C, and D, the A bank will make up its summary of cheques exchanged as follows—

A Bank.

Debtors.		Creditors.
£		£
20,000	B Bank	
	C ,,	50,000
40,000	D ,,	
	Clearing Balance	10,000
£60,000		£60,000

The above shows that A owes B £20,000, and D £40,000, but is owed by C £50,000. Therefore, A bank owes £10,000 more than is owing to it.

We can now proceed to make up the remaining three statements, which will appear as on next page.

B Bank.

Debtors.		Creditors.
£		£
	A Bank	20,000
30,000	C ,,	
10,000	D ,,	
	Clearing Balance	20,000
£40,000		£40,000

In the above, it will be observed that B bank owes £20,000 more than is owing to it.

C Bank.

Debtors.		Creditors.
£		£
50,000	A Bank	
	B ,,	30,000
	D ,,	10,000
	Clearing Balance	10,000
£50,000		£50,000

D Bank.

Debtors.		Creditors.
£		£
	A Bank	40,000
	B ,,	10,000
10,000	C ,,	
40,000	Clearing Balance	
£50,000		£50,000

In the above simple statements, it will be observed that in the first, A bank is debtor to B for £20,000; therefore in the statement of B, A will be credited by £20,000, thus completing the double entry. This principle is continued with the remaining statements. Thus, in the second statement, B bank is debtor to C for £30,000; therefore in C's statement we shall find that B is credited with a like sum.

As regards the final adjustment of the balances, A bank owes £10,000 in respect of the balance of the day's clearing, B owes £20,000 and C owes £10,000. Therefore, transfers will be made in the books of the Bank of England, debiting the above banks with the respective amounts, and crediting the Clearing Bankers' Account accordingly. As regards D bank, their account will be credited with £40,000,

balance due to them in respect of the day's clearing, and the Clearing Bankers' Account will be correspondingly debited.

Transfers of Clearing Balances.

The representative, or "clearer" as he is often called, having ascertained the amount to be received or paid by the bank he is representing at the Clearing House, will proceed as follows—

Suppose his bank has to receive, say, £10,000 as a result of the day's clearing, the particulars are inserted on a small form printed in black, thus—

Crs. Messrs. _____

By General Balance.

£10,000

If, on the other hand, his bank has to pay, say, £15,000 as a result of the day's clearing, a form is filled up, printed in red, thus—

Drs. Messrs. _____

To General Balance.

£15,000

Now we know from what has been said previously, that the bank which has to *receive* will have placed to its credit in the books of the Bank of England the required sum, which will be transferred from the amount standing to the credit of the Clearing Bankers' Account. In other words, Clearing Bankers' Account will be debited, and the account of the bank that has to receive will be credited. On the other hand, when a bank has to *pay* as a result of the day's transactions, the amount will be transferred from the account of the particular bank, to the Clearing Bankers' Account. That is to say, the account of the bank that has to pay will be debited, and Clearing Bankers' Account will be credited.

The foregoing remarks will be no doubt further explained by the following procedure.

Having ascertained the amount due from or to his bank, the "clearer" will proceed to write his transfer. Assuming there is a balance due to his bank as a result of the day's clearing, the clearer will write out a *green* ticket as follows. Such ticket, it will be

observed, confirms the remarks above, namely, that the bank which is to receive will be credited, and Clearing Bankers' Account debited. The ticket is as follows—

SETTLEMENT AT THE CLEARING HOUSE.

LONDON.

_____19____

To the Cashiers of the BANK OF ENGLAND.

Be pleased to *credit* our Account the sum of_____ out of the money at the credit of the account of the Clearing Bankers.

£_____ _____

Seen by me

_____Inspector of the Clearing House.

SETTLEMENT AT THE CLEARING HOUSE.

BANK OF ENGLAND.

_____19____

The Account of Messrs._____ has this evening been *Credited* with the sum of_____ out of the money at the credit of the Account of the Clearing Bankers.

£_____ For the BANK OF ENGLAND.

_____

If a bank has to pay as a result of the day's clearing, a *white* transfer form will be filled up as follows—

SETTLEMENT AT THE CLEARING HOUSE.

LONDON.

_____19____

To the Cashiers of the BANK OF ENGLAND.

Be pleased to *Transfer* from our Account the sum of_____ _____

and place it to the credit of the Account of the Clearing Bankers, and allow it to be drawn for by any of them (with the knowledge of either of the Inspectors, signified by his countersigning the drafts).

£_____ _____

SETTLEMENT AT THE CLEARING HOUSE.

BANK OF ENGLAND.

_____19____

A *Transfer* for the sum of_____ _____ has this evening been made at the Bank, from the Account of Messrs. _____ to the Account of the Clearing Bankers.

£_____ For the BANK OF ENGLAND.

_____

This Certificate has been seen by me_____ Inspector.

In the case of the first ticket, the clearer fills it in and obtains the signature of the Inspector of the Clearing House, and then goes to the Bank of England. The Cashier there signs the counterfoil, and retains the half of the ticket authorising the Bank to credit the account of the particular bank. The other half of the ticket is then taken back by the clearer to his own bank.

In the case of the white ticket, the clearer fills this in, and takes it to the Bank of England. The Cashier there will sign the counterfoil, and retain the portion authorising the Bank to transfer the given amount from the account of a particular bank to the Clearing

Bankers' Account. The half of the ticket which is signed by the Cashier of the Bank of England, will then be taken back to the Clearing House to be signed also by the Inspector there. The clearer then returns with the signed transfer to his own bank.

The Machinery of the Clearing House.

Having discussed the main outlines of the work of the London Clearing House, let us consider its operations in fuller detail.

Each clearing bank keeps two sets of books ("in-clearing" and "out-clearing") for the purposes of the clearing, and the columns are headed with the names of the various banks. Every morning the cheques received by a bank on the other clearing banks are sorted and listed by means of adding machines. The totals under the heading of the various banks will appear in the "out-clearing books." The clerks who have charge of this work are termed "out-clearers."

The cheques are sorted out and fastened together in batches—according to the bank on which they are drawn. The "out-clearers" have, of course, arrived at the respective totals of cheques their bank holds upon each of the remaining clearing banks. These batches of cheques or "charges" as they are frequently called, are packed in a "wallet" and taken by a clerk to the Clearing House, who places them on the desks occupied by the representatives of the various banks on which such "charges" are drawn. The "out-clearer" also proceeds to the Clearing House with his books.

The representatives of the respective banks at the Clearing House are termed "in-clearers," and they at once proceed to have the cheques listed—by means of adding machines—under the headings of the various banks. The totals of "in-clearing" and "out-clearing" must obviously agree. For example, if the "out-clearing" total of, say, Parr's Bank, Limited, on the London and South Western Bank, Limited, were £100,000, the "in-clearing" total of the London and South Western Bank, Limited, should be the same. The "out-clearing," of course, represents cheques to be collected by any bank, whilst the "in-clearing" represents cheques which a bank has to pay. When the "in-clearer" has agreed his various "charges," he returns to his bank. The cheques are then examined and paid, if in order.

There are four clearings during the day. The first is the metropolitan clearing, which commences at 10 a.m. The second, which is a general clearing, commences at 10.30 a.m. The third clearing is at noon. This is a country clearing. Last of all, there is the afternoon clearing which commences at 2.30 p.m. Each of these is separately dealt with.

The first and second clearings are called the morning clearing, and it is only for convenience that it now consists of two parts, the first being confined to metropolitan cheques, whilst the second deals with the cheques which have been received from the branches of each of the clearing banks by the morning's post.

The second clearing will also include cheques on the clearing banks that were paid into the country correspondents of those banks on the previous day.

The third clearing, at noon, is the country clearing, that is, the cheques dealt with are country cheques drawn upon country banks. These are sorted according to the clearing agents of the country bankers, and after a general interchange has been made, the agent again sorts the parcel which has been brought back to him and despatches the different cheques to the country bankers upon whom they have been drawn.

The afternoon clearing commences at 2.30, and the "in-clearer" continues dealing (in the same manner as the morning clearing) with cheques that have passed through the "out-clearing" books at the banks. As the "in-clearer" completes the listing of the various batches of cheques, clerks and messengers frequently arrive from his bank and take the cheques back to their own offices to be examined and paid. The "out-clearer" at the bank will continue his work until four o'clock when the bank closes, and no more "credits" are taken by the cashiers. He then hurries to the Clearing House.

As four o'clock approaches, the scene at the Clearing House is a very animated one. Many clerks and messengers from the clearing banks hurry in with their various "charges," and the "clearers" have to conduct their work with great expedition in spite of much attendant noise and bustle. The doors of the Clearing House are fastened at 4.10, and no more cheques are accepted for clearance. At 4.15 the doors are unfastened, and the clerks and messengers go back to their respective banks with the last batches of cheques

that have been dealt with by the " in-clearers." From 4.15 until 5 o'clock, the representatives at the Clearing House of the various banks are busy agreeing the balances as between one another.

During the time that the " clearers " are agreeing the balances, the " charges " that were taken by the clerks and messengers from the Clearing House are being examined and paid at the various banks as quickly as possible.

Of course, there will be some cheques that cannot be paid owing to insufficient funds being to the credit of the drawer, or to one of the several irregularities, the nature of which we have discussed in previous chapters. All unpaid cheques are brought back to the Clearing House as soon as possible. These " unpaids," as they are called, are distributed to the various " clearers " in the same manner as already explained with regard to the cheques brought into the Clearing House during the morning and afternoon. That is to say, the returns are treated as if they were cheques drawn upon the particular bank by which they were presented.

It may be here stated that there are now, since the amalgamations carried out towards the end of 1917, fourteen banks in the Clearing House. They are (arranged alphabetically) as under—

Bank of England.
Barclay & Company, Ltd.
Capital & Counties Bank, Ltd.
Coutts & Co.
Glyn, Mills, Currie & Company.
Lloyds Bank, Ltd.
London County, Westminster and Parr's Bank, Ltd.
London Provincial & South Western Bank, Ltd.
London City & Midland Bank, Ltd.
London Joint Stock Bank, Ltd.
Martin's Bank, Ltd.
National Bank, Ltd.
National Provincial and Union Bank of England, Ltd.
Williams Deacon's Bank, Ltd.

(*N.B.*—Other banking amalgamations are contemplated.)

It may be added that the London County, Westminster and Parr's Bank, Ltd., have *two* desks at the Clearing House, one

known as the Lothbury Office desk, and the other as the Lombard Street desk.

Let us return to the question of the final agreement of the balances for the day. In order to arrive at the necessary figure, the clearer of each bank takes a "summary sheet" which contains the names of the clearing bankers, together with a "Debtor" column on the left-hand side and a "Creditor" column on the right-hand side. The clearer takes the first bank. He finds that the total of his "out-clearing" book is, say, £150,000, and in his "in-clearing" book the total is, say, £200,000. The balance is then struck, and the difference of £50,000 is placed in the right-hand column of the sheet, thus—

The_____Bank.

Debtors.		*Creditors.*
Barclay.	50,000	

The balance is placed in the creditor column as the total of the "in-clearing" book is the heavier. The "out-clearing" book (*i.e.*, corresponding to the debtor column of the summary sheet) represents assets, whilst the "in-clearing" book represents liabilities (*i.e.*, corresponding with the creditor column). Therefore, in the foregoing imaginary clearing totals, the clearer's bank has liabilities with Barclay & Company, Ltd., amounting to £200,000, and assets amounting to £150,000. Thus the liabilities exceed the assets by £50,000, which amount is due to Barclay & Company, Ltd., and is therefore placed in the creditor or "liabilities" column. The clearer continues treating the other banks on the sheet in the same manner. In some cases he will receive largely, and in others he will pay. The two columns are added up, and the difference between them represents the total sum owing to or by the bank in question "on general balance." The returned cheques, it may be stated, are entered at the end of the summary sheet before the general balance is struck. We know that each bank keeps an account with the Bank of England, and there is also an account there called the Clearing Bankers' Account. If X Bank owes, say, £100,000 on general balance in respect of a day's clearing, it instructs the Bank of England to transfer that sum from the account of the X bank to

the Clearing Bankers' Account. Conversely, if there is a general balance of say, £50,000 due to the Y bank as a result of the day's clearing, that sum will be transferred in the books of the Bank of England from the Clearing Bankers' Account to the credit of the Y bank. The detailed manner in which these transfers are made, has been dealt with earlier in this chapter, under the heading of " Transfers of Clearing Balances."

The preparation of the summary sheet at the Clearing House on the conclusion of the day's work, will be the more readily understood by a reference to the diagrams given in an earlier part of the chapter under " The Principle of the Clearing."

The enormous volume of work accomplished by the Clearing House could not be carried through with nearly the great speed it is, without the use of the adding machine. This marvel of mechanical ingenuity is something like an ordinary typewriter in appearance, and has a keyboard which contains figures. The operators of the adding machines type the amounts of the cheques on slips of paper, and some of the operators are able—through considerable practice —to list the cheques at a very high rate of speed. When a number of cheques have been listed, and it is desired to know the total, the operator merely pulls over a lever. Immediately, the total of fifty or more amounts is recorded. It may be stated that the adding machine makes no mistake in a " cast."

The Sub-divisions of the Clearing.

Up to the present we have spoken of the functions and work of the London Clearing House in a general manner. Having, therefore, dealt with the main points, we should now be the better able to follow the detailed working of the Clearing House.

No doubt many readers have seen the letters, T, M, or C, printed on the left-hand bottom corner of cheques, and have wondered what they signify. In many instances the letters are not surrounded by the lines shown below, but that is quite immaterial.

The placing of these letters on cheques is for the purpose of convenience in clearing. The letters signify—

Town Clearing.

Metropolitan Clearing.

Country Clearing.

The marking of cheques in the above manner became necessary as the outcome of the inauguration of the Metropolitan Clearing, the date of which was 19th February, 1907. The present Chief Inspector of the Clearing House was mainly instrumental in establishing the Metropolitan Clearing, and it has been found to work very satisfactorily, being a great convenience both to bankers and their customers, as we shall show later on.

In the first place, one may ask, why was it thought necessary or desirable to have a Town and Metropolitan cheque clearing? It may be mentioned that before the Metropolitan Clearing was inaugurated, the clearings were "Town" and "Country" respectively; consequently the introduction of the Metropolitan Clearing rendered it necessary to mark cheques with the above-mentioned distinctive letters.

The great advantage accruing from the Metropolitan clearing is that all cheques on branches of banks in that clearing will be paid the same day—as also, of course, will cheques on banks in the Town Clearing.

Previous to the introduction of the Metropolitan Clearing, Town cheques were cleared the same day. Country cheques take three days for clearance as they have to be sent to the banks on which they are drawn—but of this we shall speak later.

It is of great importance that now, by means of the Town and Metropolitan Clearings, all cheques on banks situated in those "clearings" may be treated as "Cash." The marking of cheques with the distinctive lettering, T, M, and C, will enable bank officials and the public to see readily how long a particular cheque will take to collect. Previous to the introduction of the Metropolitan Clearing and distinctive lettering on the cheques, a considerable amount of confusion existed as to how long a particular cheque would take to clear. As there was no uniformity in the matter, bank officials frequently had to refer to lists in order to see how long a cheque would be in clearance. As the matter now stands, however, the position is quite satisfactory. Cheques marked T and M are cleared the same day; consequently the arrangement must be one of considerable advantage to customers of a bank, as the old difficulties they experienced with regard to the time of clearance of their cheques are largely removed.

The inauguration of the Metropolitan Clearing resulted in banks

situated in a greater area in the Metropolis, having all cheques drawn upon them collected directly through the Clearing House. As this arrangement meant that a much larger number of branch banks than hitherto would be enabled to have cheques upon themselves cleared the same day, it is obvious that more messengers would be required to present those cheques to the banks on which they were drawn.

The Clearing House messengers are given " walks," and they are required to deliver the cheques as quickly as possible to the branch banks upon which they are drawn, choosing first—as far as convenient—those branches having the largest number of cheques drawn upon them.

It may be observed that for a Town or Metropolitan cheque to be cleared the same day, it must be received and paid as between these two clearings. To illustrate this, if a cheque was paid in by a customer of Parr's Bank, Limited, Cannon Street Branch, drawn on, say, Lloyds Bank, Limited, Law Courts Branch, such cheque would be cleared the same day, as the receiving bank (*i.e.*, Parr's) is in the Town Clearing, and the paying bank (*i.e.*, Lloyds) is in the Metropolitan Clearing. This is no doubt quite obvious, but the example is given to show clearly to those who have had no practical experience of the clearance of cheques the difference which exists between it and the following instance.

Suppose a customer of, say, the Capital & Counties Bank, Limited, Norwich Branch, paid in a cheque, drawn on Williams Deacon's Bank, Limited, Westminster Branch. Now this cheque would be marked [M] as the branch on which it is drawn is in the Metropolitan Clearing. As regards the customer at the Norwich bank, the clearance would take place as under. If the cheque was paid in at Norwich on a Monday, the bank there would send it forward (with other cheques) to its Head Office by the evening post for clearance. It would reach London on the Tuesday morning, and would be presented for payment to Williams Deacon's Bank, Limited, Westminster Branch, through the medium of the Metropolitan Clearing messengers as previously described.

Thus, although the customer of the Norwich bank in the first place receives a cheque on a bank in the Metropolitan Clearing, he will not know whether it is paid or not until the Wednesday. If he called at his bank on the Wednesday morning and was informed

that the cheque had not been returned, he could assume that it had been duly paid.

The following extracts taken from the Clearing House rules for the conduct of the Metropolitan Clearing, may be read with advantage—

" The Metropolitan Clearing to open at 9 a.m. on ordinary days and 8.45 a.m. on Saturdays. Drafts on the Branches of the Clearing Banks included in the Metropolitan Clearing area to be received not later than 10.30 a.m. (Greenwich time) on ordinary days and 9.50 a.m. (Greenwich time) on Saturdays.

" It is requested that the first delivery be made immediately on the opening of business, subsequent deliveries at frequent intervals, and that every effort be made to avoid heavy deliveries at the last moment. . . .

" Returns in the Metropolitan Clearing must be delivered at the Clearing House through the afternoon Town Clearing at the earliest possible moment, but not later than 4.5 p.m. on ordinary days and 1.30 p.m. on Saturdays."

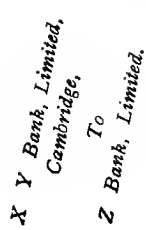
The general rules of the Clearing House are also applicable to the conduct of the Metropolitan Clearing in so far as they apply.

The Country Clearing.

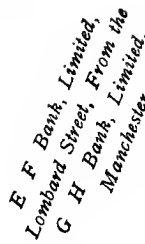
A further division of the clearing system is known as the " Country Clearing." It plays a more important part in the conduct of the business and commerce of the country than does the Town Clearing. The principles of the Country Clearing are practically the same as those already described.

The Country Clearing was established in 1858. Previous to that date, country cheques were presented for payment through the post direct to the bank on which they were drawn, and a draft on a clearing banker was sent by return in payment. Since the above year, however, country cheques have passed through the Clearing House by the medium of the Clearing Agents of those country banks whose Head Offices are not in the Clearing House. In the case of those country banks whose Heads Offices are members of the Clearing House, the country banks will remit the cheques through their Head Office for clearance. When cheques are sent from country banks to Clearing Agents for collection, they are crossed by the former to the latter, as shown on the next page.

(*a*)



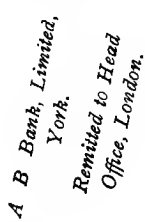
or (*b*)



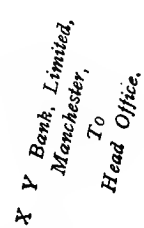
In the first of the above imaginary crossings, X Y is the country bank that has received the cheque, and its Head Office not being a member of the Clearing House, the country bank crosses the cheque to its Clearing Agents, the Z Bank. All country banks do not, of course, cross the cheques which they send forward through the Country Clearing in precisely the same manner as given in the above examples. Some cross such cheques with slightly different wording from either of the above examples, but the purport of the crossing is the same in all cases.

In the case of country branches of clearing banks sending up cheques for clearance through their Head Office, the crossing is after the following manner—

(*a*)



or (*b*)



The Country Clearing commences at 10.30 a.m. and is usually completed by about 12.30 p.m. A greater portion of the work of the Country Clearing is carried through at the offices of the various clearing banks than at the Clearing House itself.

When the cheques are received in London for clearance, they are sorted according to the various Clearing Agents, listed, and the totals entered in the "out-clearing books." The various banks then exchange cheques for the purpose of arriving at the balance as between each other. For instance, Lloyds Bank will hand to Parr's Bank the cheques it holds on that bank, whilst Parr's Bank will hand to Lloyds Bank, in exchange, the cheques it holds on Lloyds.

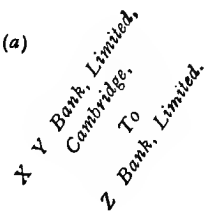
The Country Clearing is settled in a similar manner to the adjustment of clearing balances explained earlier in this chapter. It is to be noted, however, that the balances as between the various clearing banks are not transferred till the third day, as it is necessary to forward the cheques by post to the country banks upon whom they are drawn for payment. This is done by the clearing agent (or Head Office as the case may be) of the country bank which sent the cheques up for collection.

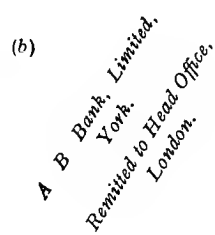
All cheques presented through the Country Clearing must bear across their face the name of the presenting bank, and the name of the London agent also. See the example already given.

In accordance with the rules of the Clearing House—

" Any country bank not intending to pay a cheque sent to it for collection, to return it direct to the country or branch bank, if any, whose name and address is across it."

Let us make this clearer. When a country bank receives by the morning's post a cheque through the Country Clearing drawn upon it by one of its customers, if the country bank does not intend to pay the cheque it must be returned direct to the branch bank named in the crossing, and not to the London Agent or Head Office as the case may be. Thus, the Nottingham Branch of the C D Bank receives two cheques by post through the Country Clearing, crossed in accordance with two imaginary crossings, viz.—





Should the Nottingham bank not pay the two cheques, it will " mark " them (*i.e.*, place the reason for non-payment thereon) and return one cheque direct to the X Y Bank, Cambridge, and not to the Z Bank, which is the Clearing Agent of the X Y Bank. In the case of the second cheque, it will be returned direct to the A B Bank, York, and not to the Head Office of that Bank. The

second style of crossing is, of course, placed on cheques by a branch bank whose Head Office is in the Clearing House; whilst the first crossing is that of a country bank, the Head Office of which is not in the Clearing House, and which consequently appoints a clearing bank to carry through the clearances.

Instruments not passed through the Clearing House.

In dealing with the Clearing House so far, we have referred to cheques as being the instruments that are passed through the Clearing. It may be stated, however, that in the case of the Town Clearing, acceptances and dividend warrants may be passed through in addition to cheques.

As regards the Country Clearing, cheques or drafts with documents or receipts attached, cheques payable in the Isle of Man, Channel or Scilly Islands, acceptances, promissory notes, drafts drawn in foreign currency, and drafts to be paid under advice, must not be remitted through the Country Clearing, but sent direct for collection to the banks where they are payable.

Cheques not passed through the Clearing House.

Whilst the great majority of cheques that are drawn by customers of banks pass through the Clearing House, and are applicable either to Town Clearing, Metropolitan Clearing, or Country Clearing, according to the situation of the bank on which they are drawn, there are some cheques that do not pass through the Clearing House at all. The following are the cases—

(*a*) *When a person draws a cheque on his bankers, and the payee takes it to the bank on which it is drawn, and receives the cash over the counter.*

In this case, the cheque must, of course, be uncrossed. The proportion of cheques paid in this way is comparatively small, since most people cross the cheques they issue, and usually refrain from doing so only when requested by the payee. Even when the cheques *are* issued uncrossed, in many cases the payee will not proceed to the bank on which they are drawn to obtain the money, but will pay them into his own bank.

(*b*) *When a person draws a cheque, and the payee pays it into his bank which is situated in the same town as the drawer's bankers.*

In this instance, the cheque would generally be paid through what is known as the "local exchange." This is explained by stating that, in fair-sized towns (other than those towns already mentioned as having a local Clearing House) there is what is known as a "local exchange" of cheques. Each day the banks make an exchange of the cheques they hold on one another, and pay over the ascertained difference. Thus, if the A Bank holds cheques paid in by its customers, amounting to £1,100 on the branch of the B Bank in the same town, and the B Bank in its turn has cheques paid in by its customers drawn on the A bank in the same town to the extent of £1,050, the B Bank will pay £50 to the A Bank in order to settle the difference.

These differences in some towns are paid in coin or notes up to £50, but beyond this sum, a draft on London is given in settlement. In other towns a draft is only issued when the difference exceeds £100. The custom varies on the matter of the payment of differences arising from the local exchange of cheques. A branch of a non-clearing bank will draw the draft on its London Agent, whilst the branch of a clearing bank will draw on its Head Office.

(*c*) *When a customer pays into his bank a cheque drawn on another bank situated outside the town, and requests his banker to send it forward specially and ascertain the fate by wire.*

This is sometimes done in the case where a retail dealer gives an order for goods to a wholesale house, and sends a country cheque in payment. If the retailer is a new customer and the wholesale house has very little information as to his means, it not unnaturally desires to know whether his cheque is "good," before despatching the order. The wholesale house, therefore, requests its bankers to send the cheque forward direct to the bank on which it is drawn with a prepaid wire attached. By this means, the wholesale house will know the "fate" of the cheque sooner than if it was passed through the Country Clearing by the bankers in the usual way.

There may, of course, be other reasons besides the foregoing that will prompt a customer to ask his banker to ascertain the fate of a cheque by wire, and the banker will always do so, when requested.

The detail work in connection with cheques sent forward in this manner has been already dealt with in Chapter V, under the heading of "Wiring Fates of Cheques."

It may be added that if the bank that forwarded the cheque is a non-clearing bank, it would request the bank on whom the cheque is drawn to pay over the amount to its London Agents That is to say, if the A Bank, which is not a member of the Clearing House, sends a cheque direct to the B Bank, the latter will be requested to pay the amount to the C Bank, which is the London Agent of the A Bank, for the credit of the latter.

When cheques are sent forward direct, the remitting bank will also send a printed form after the following manner—

The A_____Bank
_____Branch,
beg to enclose £_____for favour of credit with Messrs. C Bank.

_____19____

The foregoing is the style of form adopted by a non-clearing bank. There is no uniformity in this connection, as each bank has its own particular kind of form, but the majority of them approximate to the one given above. In any case, the same kind of form would be issued to all the branches of any particular bank, with a blank space left as indicated above for the rubber stamp of the branch to be impressed.

It may be mentioned that, in many cases, when a bank is requested to send a cheque direct to the bank on which it is drawn, and there is a branch of the remitting bank in that town also, the remitting bank will usually send the cheque to *its* branch, to obtain payment from the bank on which the cheque is drawn. To make this clearer: If the Nottingham Branch of the A Bank is requested by a customer to obtain the fate—by wire—of a cheque drawn on the Brighton Branch of the B Bank, and there is a branch of the A Bank in that town, the Nottingham Branch will send the cheque to its Brighton Branch, which will present it to the B Bank at Brighton. The Nottingham Branch will debit its Brighton Branch with the amount of the cheque, whilst the latter—which will retain the proceeds—will credit the former.

CHAPTER VII

BANKERS' CHARGES

General Remarks.

A CONSIDERABLE portion of a bank's profit is derived from charges made for keeping the current accounts of its customers. On this matter, as in the case of several others we have already discussed, there is no uniformity of procedure. Some banks calculate their charges in one way, and some in another. In the course of this chapter, however, we shall refer to the usual variety of methods adopted by the English banks. The chapter will not deal with the practice of the Scottish banks in this connection, this being beyond the scope of the present work.

The custom of charging commission on current accounts is now so well established throughout the country, that it is very probable that such a charge would be legally enforceable against a customer, in the event of his refusing to pay the charge on the ground that the banker had given no notice that such a charge would be made.

Charges for Keeping Current Accounts.

The general practice of the London banks is to require their customers to keep a remunerative credit balance on their accounts, and in these instances no charge will be made for keeping the account. If, however, the balance should be too small to be remunerative, the bank will make a charge of, say, £1 1s. per annum for keeping the account. The amount to be charged under these circumstances will vary. In some cases it will be more than the amount above indicated, and in others it may be less. It is not possible to state any fixed sum which will be charged on accounts where a remunerative balance is not maintained, as each bank has its own particular customs in this respect. Generally speaking, however, a proportionately heavier charge will be made when an account is worked on a very low balance.

With regard to the expression "remunerative balance," this, of course, implies an account on which a balance is maintained of a character remunerative to the bank. That is to say, the bank is

able to keep the account free of charge, since by having many of these accounts on its books, it is able to employ the funds profitably in the usual channels of bankers' investments. When opening an account, the new customer can ascertain from the manager what balance it will be necessary to maintain in order that no charge shall be made for keeping the account. This information, therefore, will constitute what the bank looks upon as a "remunerative balance." The manager may name £50 as the minimum amount in this connection. Different banks have their own rules on this point, and it is not possible to indicate any minimum sum which is adopted by *all* the London banks.

This charge for keeping current accounts will be entered in the customer's pass-book each half-year on 30th June and 31st December respectively, on which dates most banks balance their books. Some banks enter the amount as "Charges," whilst others term it "Commission."

It is not the usual custom of the English joint-stock banks to allow interest on the credit balances of current accounts. In cases, however, where a very substantial balance is maintained, a manager *may* allow the customer some interest, but it is usually quite a matter of arrangement. The interest would in all probability be allowed by the manager, if the customer showed some inclination to withdraw the account on the plea that the money was lying idle. The foregoing remarks dealing with the allowing of interest on current account credit balances are more applicable to the banks in the provinces, and hardly apply to London.

Instead of making a more or less fixed charge for keeping current accounts, there are a good many banks which base their charge upon the "turnover" of the account. The "turnover" of an account is the term used by a bank to denote the total amount of cheques (and bills) debited to a current account during the bank's financial period. The charge on the turnover is $\frac{1}{4}$ per cent. in some banks, and in others it is $\frac{1}{8}$ per cent. The amounts due to the bank in these instances are ascertained usually at the end of June and December. The various current accounts are debited with the commission, whilst the commission account of the bank is credited with the total. It is not the custom of banks to state in the pass-book at what rate commission is charged, but the information will be given by the bank on application by the customer.

Calculation of Interest.

We have seen that in some cases, as a matter of arrangement (and usually in the provinces), a banker will allow interest on the credit balance of a current account. The interest is calculated on the daily credit balances, and in most instances will be at 1½ per cent below Bank Rate. As the Bank Rate alters from time to time, it follows that the customer will not receive interest at a fixed rate, but at a fluctuating one. In cases where interest is allowed on credit balances, it is usual to charge a rate on the turnover—in some cases ¼ per cent. and in others ⅛ per cent. Some banks enter the interest and commission separately in the pass-book, but the usual method is to deduct one from the other and term the entry "Interest and Commission."

We will now take an imaginary account in a banker's ledger, and proceed to arrive at the interest due to the customer, together with the commission on the turnover due to the bank. In the following example, we will assume that the customer has informed the bank manager that a minimum balance of, say, £500, will be maintained on the account, and accordingly the manager has agreed to allow interest on the daily balances. (See next page.)

From this account, it will be observed that the bank ledgers differ somewhat from those used in commercial houses. The introduction of a "Balance" column is very useful, as it enables one to see at a glance what the balance of an account is, without the necessity of adding up the entries in the debtor and creditor columns and then taking the difference.

In the first place, we will deal with the question of the interest due from the bank to the customer. In accordance with the arrangement made by the local manager, the bank has agreed to allow the customer interest at 1½ per cent. below Bank Rate, on the understanding that a minimum balance of £500 is maintained on the account.

To proceed with the working of the interest, we find that from 31st December to 5th January there will be five days' interest on £572 3s. 9d. due to the customer. Instead of working out what five days' interest on £572 3s. 9d. would be, the banker's ledger clerk merely places the number of days in the column reserved for that purpose. He then multiplies the number of days by the

Henry Jones, The Firs, Blanktown, Gentleman.

Date.		Dr.	Cr.	Dr. or Cr.	Balance.	Days.		
19....		£ s. d.	£ s. d.		£ s. d.			
Dec. 31	By Balance		572 3 9	Cr.	572 3 9	5		2,860
19....								
Jan. 5	To Brown	57 10 0		Cr.	514 13 9	29		14,935
Feb. 3	To Wilson	10 0 0		Cr.	504 13 9	11		5,555
,, 14	By Cash		120 0 0	Cr.	624 13 9	17		10,625
Mar. 3	To Watson	37 10 6		Cr.	587 3 3	31		18,197
Apl. 3	By Cash		32 0 0	Cr.	619 3 3	2		1,238
,, 5	To Bailey	12 0 0		Cr.	607 3 3	11		6,677
,, 16	To Smith	20 10 0		Cr.	586 13 3	15		8,805
May 1	By Cash		39 0 0	Cr.	625 13 3	11		6,886
,, 12	To Barton	10 6 9		Cr.	615 6 6	5		3,075
,, 17	To James	27 2 6		Cr.	588 4 0	6		3,528
,, 23	By Cash		95 0 0	Cr.	683 4 0	10		6,830
June 2	To Field	37 2 4		Cr.	646 1 8	13		8,398
,, 15	To Self	20 0 0		Cr.	626 1 8	15		9,390
,, 30	By Interest		5 5 8	Cr.	631 7 4			
	To Balance	631 7 4		Cr.	631 7 4			
		£863 9 5	£863 9 5			181		106,999
June 30	By Balance		£631 7 4	Cr.	£631 7 4			
	Interest @ 2 % p.a. =		£5 17 3					
	Less ¼ % on turnover		11 7					
			£5 5 8					

amount, when the product will be 2,860, *i.e.*, 572 × 5. This figure is then extended into the second or "creditor" total column, as it has to deal with interest due from the bank. It may be mentioned that, in working interest, bankers do not count sums under ten shillings, but amounts over ten shillings will be reckoned as one pound. In our example, then, the amount will be taken as £572. We will now take the next amount. The balance on the 5th January became £514 13s. 9d., and remained at that figure until the 3rd February. Therefore the interest due to the customer will be on that sum from the 5th January to the 3rd February, namely, twenty-nine days, which will be extended into the proper column as shown. As in the previous instance, the number of days will be multiplied by the balance, and the total extended, namely, 14,935, *i.e.*, 515 × 29. The same process will be repeated with each balance as shown.

In calculating the number of days in cases like the above, the date from which the number of days is being reckoned is *excluded*, whilst the day to which the calculation is being made is *included*. We can readily prove that the days have been correctly stated in detail, since the total days from the 1st January to the 30th June is 181, both days inclusive—provided the year is not leap-year.

The figures extended into the total column (which are merely multiplication sums, as already noticed) are termed "decimals" in banks. As a matter of fact they are not decimals at all, although bank officials refer to them by that name.

Having made all the necessary extensions, the total "decimals" is found to be 106,999. In order to find the amount of interest due to Mr. Henry Jones, all the bank will do is to turn up a book specially prepared to show the answers to totals of "decimals." [1] For the sake of simplicity, we will assume that the Bank Rate remained unchanged at, say, 3½ per cent. from the 1st January to the 30th June. The rate to be allowed Mr. Jones is, as already stated, 1½ per cent. below Bank Rate. Therefore, the interest to be allowed will be 2 per cent. on "decimals," amounting to 106,999.

[1] The book used in a good many banks is *Balance Time Interest Tables*, by T. Rought Jones, of the Manchester and Liverpool District Banking Company, Ltd., published by Bemrose & Sons, Ltd., 4 Snow Hill, London E.C., and Derby.

On turning to *Balance Time Interest Tables*, to the page headed 2 per cent., we shall see it stated that—

100,000	=	£5	9	7
6,999	=		7	8
106,999	=	£5	17	3

Therefore, the interest due from the bank amounts to £5 17s. 3d.

This method of working interest is a very convenient one, for all that has to be done is merely to multiply each balance by the number of days as shown, extend the "decimals," and then find at a glance, from the book already mentioned, what the grand total of "decimals" will equal in pounds, shillings, and pence. Of course, the result *could* be arrived at by working out simple interest by the usual arithmetical method on each balance for the various number of days. This, however, would be a laborious process—particularly so in a bank, where the number of accounts and volume of work to be accomplished render it essential that a quick method of working interest should be adopted.

We have assumed that no change took place in the Bank Rate during the period covered by the above specimen account. In an example to be given later on in the chapter, we shall show how a change in the Bank Rate is dealt with in working interest on current account balances. These changes have not been considered up to the present, in order that the example given may be the better understood.

It will be observed that when we multiply the amount by the days (*e.g.*, 572 × 5 = £2,860), this product signifies that the customer is entitled to one day's interest on £2,860. This, of course, is equal to the five days' interest on £572. The simplicity of the method is apparent, since in the example already given, the required answer is merely one day's interest on the total products, namely, £106,999, which answer we can obtain as mentioned above.

Our next step is to find the amount of commission due to the bank on the turnover of the account. In this case we will assume that the rate charged by the bank is ¼ per cent. On referring to the account, we see that the cheques debited during the six months amount to £232 (disregarding shillings and pence), and ¼ per cent. on this sum is 11s. 7d. This amount is deducted (see account) from the interest due to the customer, when it is seen that the net

sum to be credited to the account is £5 5s. 8d. Accordingly, the banker credits the account with £5 5s. 8d., strikes the balance at £631 7s. 4d., and rules off the account as shown. Most banks would enter the net sum in the pass-book thus, " Interest £5 5s. 8d."

With reference to the credit items in the above account, it may be stated that there are some banks which enter the total of a paying-in slip in their ledgers as " Cash," not showing the separate total of cheques (if any). On the other hand, there are many banks which state the amount of cheques apart from the cash ; that is to say, they will denote in the ledger the total cheques as appearing upon the customer's paying-in slip. This is of some importance, because the banker can see at a glance what portion of the balance of the account is *uncleared*, and a customer is not allowed to draw against cheques before they are cleared, unless there is some agreement on the point between himself and the bank. There are some banks which also note in the ledger the totals of the different classes of cheques paid in, *i.e.*, Town, Metropolitan, or Country, as the case may be. Of course, where a substantial balance is always maintained on an account, and such balance consists of items that have been duly cleared, it is not so important that the total of cheques paid in should be stated separately. A banker will, however, keep a watchful eye on an account which is fed by cheques only (more especially in the case of a new account), as if he paid against uncleared cheques, and any of them were subsequently returned unpaid, it might conceivably place the account heavily in debit, since, of course, all cheques that are dishonoured are at once debited to the account of the customer who paid them in.

We will now take an example of the manner in which interest is calculated on an overdraft. In the account on p. 127, Mr. George Wilson having deposited with his bankers approved securities, is granted an " overdraft limit," of, say, £300. That is to say, he may overdraw his account to a maximum amount of £300.

We will assume it has been arranged that the above customer is to pay interest on the overdraft at 1 per cent. above Bank Rate with a minimum of 4 per cent. In other words, whatever the Bank Rate may be, Mr. George Wilson will pay interest at 1 per cent. above that rate, except that the minimum rate of interest is 4 per cent. Therefore, if Bank Rate is 2½ per cent. the rate on the overdraft will not be 3½ per cent. (*i.e.*, 1 per cent. above Bank

Rate), but the rate charged will be at 4 per cent., which is the minimum.

On turning to the specimen overdrawn account, we observe that the limit of the overdraft is stated at the head of the account, together with the rate of interest. These particulars will generally be written in red ink to make them distinctive.

The procedure adopted in order to arrive at the amount due to the bank will, in the main, be similar to that already explained with regard to interest on credit balances of a current account.

In the first place, we shall take the number of days' interest on each balance, and extend the " decimals " in the usual way. Such extensions, however, will be made into the first column as they represent interest due to the bank. As the total number of days amounts to 181, the individual numbers have been correctly stated, since there are 181 days from the 1st January to the 30th June, both days inclusive—provided the year is not leap-year.

Now in the foregoing example, we shall have to deal with the alterations in the Bank Rate, since the rate of interest on the overdraft will fluctuate in accordance therewith. We will assume, therefore, that on the 31st December the Bank Rate was 3 per cent., and the changes were—

On 26th January raised to 3½ per cent.
,, 29th March ,, ,, 4 ,, ,,
,, 21st June ,, ,, 4½ ,, ,,

Therefore, the interest due to the bank will be from 31st December to 26th January at 4 per cent., and as the rate changed on that day to 3½ per cent., the rate will be 4½ per cent. to 29th March. On that date the Bank Rate changed to 4 per cent., and therefore the rate will be 5 per cent. until the 21st June, when the last change took place. On that day the Bank Rate became 4½ per cent., and therefore from that date until 30th June the rate charged to the customer will be 5½ per cent.

We must obviously extend the total of the " decimals " for each of the above-named periods. On turning to the account we shall see that we have to find what the interest amounts to on the following " decimals " at the rates stated—

On 7,292 at 4 per cent.
,, 14,073 ,, 4½ ,, ,,
,, 16,988 ,, 5 ,, ,,
,, 2,139 ,, 5½ ,, ,,

GEORGE WILSON, THE PINES, BLANKTOWN, DENTIST.

Overdraft Limit, £300. Rate 1 per cent. above Bank Rate : minimum 4 per cent. p.a.

Date.		Dr.	Cr.	Dr. or Cr.	Balance.	Days.		
19..		£ s. d.	£ s. d.		£ s. d.			
Dec. 31	To Balance	277 2 9		Dr.	277 2 9	17	4,709	
19..								
Jan. 17	To Self	10 0 0		Dr.	287 2 9	9	2,583	
								7,292
,, 26	By Cash (cheques, £55)		68 10 7	Dr.	218 12 2	17	3,723	
Feb. 12	To Jones	37 2 9		Dr.	255 14 11	7	1,792	
,, 19	By Cash (cheques, £31)		65 2 9	Dr.	190 12 2	12	2,292	
Mar. 3	To Brown	50 0 0		Dr.	240 12 2	26	6,266	
								14,073
,, 29	By Cash (cheques, £30)		58 2 1	Dr.	182 10 1	4	732	
Apl. 2	To Self	20 0 0		Dr.	202 10 1	21	4,263	
,, 23	To Watson	17 10 3		Dr.	220 0 4	3	660	
,, 26	To James	27 6 1		Dr.	247 6 5	5	1,235	
May 1	By Cash (cheques, £40)		49 2 7	Dr.	198 3 10	51	10,098	
								16,988
June 21	To Mason	13 2 1		Dr.	211 5 11	6	1,266	
,, 27	To Smith	80 2 4		Dr.	291 8 3	3	873	
								2,139
,, 30	To Interest	5 16 5		Dr.	297 4 8			
	By Balance		297 4 8	Dr.	297 4 8			
		£538 2 8	£538 2 8			181		
June 30	To Balance	£297 4 8		Dr.	£297 4 8			

	£ s. d.
Int. @ 4 % p.a.	16 0
,, @ 4½%	1 14 8
,, @ 5 %	2 6 7
,, @ 5½% ,, ...	6 5
	5 3 8
Add ¼ % on turnover ..	12 9
	£5 16 5

Now all we have to do is to turn up the book used in banks for working interest by this short method. On referring, therefore, to *Balance Time Interest Tables*, we find that the "decimals" amount to the following—

		£	s.	d.
On the page headed	4 per cent. 7,292 =		16	0
,, ,, ,,	4½ ,, ,, 14,073 =	1	14	8
,, ,, ,,	5 ,, ,, 16,988 =	2	6	7
,, ,, ,,	5½ ,, ,, 2,139 =		6	5
		£5	3	8

Thus, the interest on the overdraft in respect of the half-year under review will be £5 3s. 8d.

Usually a bank will also charge a commission on the turnover. In this case we will assume that ¼ per cent. is charged. On referring to the account we shall observe that the turnover is £255 3s. 6d., and ¼ per cent. on this amount is 12s. 9d. Consequently this sum must be added to the interest, and it will be seen that the total amount due to the bank is £5 16s. 5d. This sum is debited to the account under date of 30th June, the balance struck at £297 4s. 8d., and the account ruled off.

It may be mentioned that in some banks it is the custom when an account is overdrawn, to extend the balances into the "balance column" in red ink, so that a distinction may be readily made from accounts that are in credit.

In the foregoing example of an overdraft on current account, it will be observed that—in accordance with the methods adopted in some banks—the amounts of cheques paid in have been stated separately. For example, in the entry on 26th January, £68 10s. 7d., the cheques amount to £55, as shown. The difference between this latter sum and the total amount paid in on that date will represent cash or its equivalent.

In some cases, instead of an overdraft being granted on current account, a bank will open a loan account which is debited with the sum advanced. The method in which an account of this description is worked will be dealt with in a later chapter dealing with advances by bankers.

Interest on Monthly Balances.

There are a few banks which allow interest on credit balances of current accounts (monthly), provided the balance is not reduced

below a certain fixed amount, which, of course, varies with different banks. In these instances, interest is worked on the "minimum monthly balance," and such balance will be the lowest sum standing to the credit of the account during the month ; since it is the lowest sum appearing on the account during the month, that the bank has had the use of during the *whole* month. In the case of the comparatively few banks which adopt this method, the rate is generally a fixed one, and does not fluctuate in accordance with the changes in the Bank Rate.

Having discussed the calculation of interest on current accounts, we can proceed to a brief consideration of other charges made by bankers.

Postages.

There are some banks which debit their customers' current accounts with disbursements by way of postage. In these cases, the amount expended according to the postage book will be debited to the current account. The total amounts debited in this way are credited to the bank's postage account.

In some banks, instead of debiting the current account with the amount expended on postages, the sum will be compounded in the inclusive fee charged for keeping the account—either 10s. 6d., £1 1s., or more, according to circumstances.

Accepting Bills.

Sometimes a bank will, by arrangement, accept bills on behalf of its customers. For this service, the customer's current account will be debited with the commission, and the amounts earned under this heading are credited by the bank to its commission account.

Issue of Cheque Books.

The stamp duty, two pence for each cheque, is debited to a customer when a new cheque book is handed to him. A good many companies and firms have special cheques ; that is, the cheques bear special printed matter, and the cost of supplying cheque books of this description will be debited to the customer. The total sums debited in this way will be credited by a bank to its printing and stationery account, and so reduce the expenditure by the bank under that heading.

It is legal for a customer to draw on his banker a cheque made out upon a sheet of paper (bearing a postage stamp to the value of two pence), but the practice is a most undesirable one, and bankers very strongly discourage it.

Sale and Purchase of Securities.

A bank will purchase or sell stocks or shares for a customer. Banks employ their own stockbrokers (who are, of course, members of the Stock Exchange) to carry through these transactions. It should be noted that it is customary for banks to halve the commission with brokers. In other words, when a bank gives a broker an order to purchase stocks or shares for one of the bank's customers, half of the broker's commission comes into the possession of the bank, and is duly credited to its commission account.

As a result of the very large number of branch banks with which the country is now intersected, a considerable portion of the investment business of the community passes through banks; for there are many persons having banking accounts who prefer to transact their investment business through their branch manager, rather than by dealing with a stockbroker direct.

It may be mentioned that the managers of most banks are under instructions from their head offices not to advise customers how to invest their funds. When a customer desires to invest money, and informs the manager of the return expected, the latter will communicate with his head office, which in its turn will obtain from the bank's stockbrokers a list of suitable securities which will be forwarded to the branch for the customer's consideration.

It has been decided in the recent case of *Banbury* v. *Bank of Montreal*, that there is not *primâ facie* a right of action for negligence against the bank if the customer who acts upon their advice is unfortunate in his speculations. Each case must depend upon its special circumstances; but it is very unlikely that any bank will increase its liabilities by any action on its own part.

Registrars of Stocks and Shares.

Several of the more important banks (particularly in London) act as registrars of governments or companies. In some cases the bank is paid by the transfer fees received, and in others it receives a certain agreed sum for the work.

Commission on Scotch and Irish Cheques.

Customers are charged commission by their bankers for collecting each Scotch or Irish cheque paid in. There is no fixed scale of commission in this connection, as each bank has its own list of rates. The divergence is, however, comparatively slight, and the following is a fair average of the rates usually charged by English banks—

Not exceeding				£5	..	..	3d.
Exceeding	£5	and not exceeding		£10	..	..	4d.
,,	£10	,,	,,	£50	..	..	6d.
,,	£50	,,	,,	£75	..	..	9d.
,,	£75	,,	,,	£100	..	..	1s.

The English banks are charged a commission by the Scotch and Irish banks for cheques remitted to the latter for collection. These accounts are adjusted between the banks half-yearly, and the rate charged to the English banks is reckoned at so much per cent.—*i.e.*, on every £100 of cheques remitted. The commission charged to the English banks is less than they charge their customers who pay in Scotch and Irish cheques. Consequently the banks in England make a small profit under this heading, which therefore recompenses them for the extra trouble they are put to in the collection of these cheques.

There are some banks which charge the customer with three days' interest on Scotch and Irish cheques paid in, for the reason that the current account is credited three days before the English bank receives credit for the proceeds of the cheques ; in other words, the customer has the use of the money three days before his bank is credited. On the other hand, it should be mentioned that there are some banks which do not credit the amount of Scotch and Irish cheques to an account until they are actually paid.

Unclaimed Balances.

As this chapter has dealt with some of the sources of profit of a banker, it may not be altogether out of place to mention here the dormant profits—if they may be so called—arising from the balances of customers lying at bankers which are unclaimed. It has been already pointed out that if a customer does not operate upon his current account for a period of six years, a banker is legally entitled to retain the funds that he holds as his own. In practice a banker never inquires for claimants, but if they appear he will

not avail himself of the plea of the Statute of Limitations. If a good title is made out he will at once refund the money. Owing to unexplained disappearances and other causes, there can be no doubt that the unclaimed balances lying at the various banks amount to very large sums. Various suggestions have been put forward as to their disposal, the principal one being that the money should be handed over to the Public Trustee for national purposes. There does not appear any likelihood of this suggestion being put into practice for many years to come.

Miscellaneous.

This chapter has dealt with the main points of bankers' charges, but there are, of course, others sometimes made. They occur, however, with less frequency than those already dealt with, and for that reason, therefore, it is not necessary to deal with them in the present work.

It must not be supposed that a banker charges for *all* the services he renders his customers. Indeed, there are some instances in which bankers undertake work for which they receive no payment whatever. In a later chapter we shall discuss those instances of services rendered for which no charge is made to customers.

CHAPTER VIII

LOANS BY BANKERS

Introductory Remarks.

SUFFICIENT has already been said in earlier parts of this volume to indicate the delicate task of a banker with respect to the granting of loans—one of the most important parts of his business. It is in this department that banking genius is most clearly shown, and it is for that reason that bankers need to be shrewd men of the world if they are to succeed. But, above all, they must be first-rate judges of character.

It would be absolutely impossible to attempt to formulate a body of rules which should guide bankers in this part of their business. It does not require a genius to be able to form a competent opinion as to the amount of a loan which can be advanced with safety when valuable securities are deposited in order to cover the same. Unless the securities are of a fluctuating character, that is, unless their value is likely to rise and fall to a considerable extent, the main consideration is as to the profit which the banker hopes to gain out of the transaction. He calculates the interest he requires to make over the matter, leaving a certain margin to meet chance emergencies, and the loan which can be safely advanced is arrived at to a nicety. It is clear, however, on very slight consideration, that if that was everything which had to be taken into account in the granting of loans, there would arise a kind of competition amongst banks as to the rates of interest to be charged by them in respect of loans, and the greater the number of banks the keener would be the competition, and the easier the rate of interest. But that has not come about, owing to the large number of bank amalgamations during the last few years. The control of the capital employed in banking is now in the hands of a limited number of joint-stock banks and a few private banks, and these existing corporations have apparently arrived at some settled policy among themselves, and competition is not so rife as it might have been under other conditions.

Until quite recently it was the practice for a local banker to act

mainly upon his own knowledge and to trust to his own good common sense when asked to make an advance to an individual, whether a customer or other person. If a banker knew his business well, he could judge of the local conditions of trade and of the commercial standing of the would-be borrower, and when he was satisfied that he could make an advance without much risk he was often willing to do so with little or no tangible security to support him, being convinced that the borrower would not lightly risk his reputation and financial ruin, and that the trading conditions were such as to make it extremely improbable that a loss would be sustained in the long run. No doubt there was a certain amount of risk run, and occasionally the transaction might turn out disastrously. But the multitude of the transactions and the proper caution of the banker would still leave an ample margin of profit upon the whole. Many a business has been saved from ruin in the past by such a policy, and now and then local managers are still ready to run a certain amount of risk in this direction. But on the whole this cannot be taken to be a correct idea of modern banking so far as loans are concerned. Reference has just been made to modern banking amalgamations, the many small banks in the country districts having been swallowed up in the great houses which have their head-quarters in London. It is the policy of the head office which now rules the country branches with more or less rigidity, and though a local manager may regret that he is not allowed to exercise his own personal judgment in many directions where he thinks that he can perceive that there is an excellent stroke of business to be done, it would never be safe for a great corporation to allow too great a freedom to its subordinate officials, otherwise it might easily find itself in great difficulties. The heavy responsibility for the old-fashioned loans must be taken by the head office alone—the branch office must adhere to the general rules in this as in other matters.

One word in general as to loans by bankers. Owing to the obligations imposed upon the bank, in the ordinary way, to be able to repay the money deposited by its customers on demand, if the account is a current one, and after a specified notice, if the account is a deposit one, nothing should be done which would have a tendency to lock up the funds of a bank for an indefinite period. In other words, a banker who advances money should be able to call

it in with as little delay as possible. In the same way the securities should be as widespread as possible, for it is well known that the hurried sale of a large amount of securities of any one particular class may cause a sudden fall in the same, and a consequent heavy loss to the banker.

Classes of Borrowers.

Borrowers are either private individuals or a combination of persons. No prudent banker ought to entertain the idea of a loan to a private individual, who is not engaged in trade, without security, unless he is willing to run the risk of loss. It would be most unwise to think of discounting a bill of exchange for such a person without the most careful inquiry. It might turn out that the bill was an accommodation one, and unless the individual obliged was a person of substantial resources, the money advanced might be utterly lost. A banker may, of course, be able to gain a considerable amount of knowledge as to the financial status of the borrower, especially if he happens to be a customer of the bank. But this may be deceptive, and the discounting of the bill upon which the advance is sought may turn out to be the last of the series of desperate struggles on the part of the borrower to keep up a reputation which he has enjoyed but which has nothing to support it. On the other hand, if the borrower is a person engaged in trade different considerations will naturally arise. It may happen that sudden pressure has caused difficulties, and perhaps the banker may be satisfied that a little help will enable the trade to rehabilitate himself and put matters straight. It is then that the banker must make use of his personal information and act upon it. In the case of a body of persons, provided they are a commercial firm—for unless they are a commercial firm the same remark would apply to them as to an individual not engaged in trade—the chief consideration of a banker who is approached as to a loan will be the standing of the members who compose the firm. As every partner in a firm is *primâ facie* liable for the debts of the firm which are contracted in the ordinary way of business, the advance made to a body of men of undoubted financial ability is sufficient justification for a loan without anything further. When it is a question of making an advance to a corporate body, other points need most careful consideration. A corporate body only exists for the purposes

for which it was created. Its powers are not indefinite, as far as contracting is concerned, like those of an individual or an unincorporated body of individuals. Therefore before a loan can be entertained, the powers of the corporation as to borrowing must be carefully examined, otherwise a banker may find that he has been led into a transaction which is *ultra vires* the corporation, and consequently he may be an entire loser.

The various methods of borrowing will now be examined in as much detail as is necessary for the purpose of the banking student.

Discounting Bills of Exchange.

It was mentioned in the first chapter of the present volume that this formed one of the main businesses of a banker. And provided the bills are good, it is one of the easiest parts of a banker's work. The careful reader will bear in mind all that has been said in Chapters III and IV, and he will recollect that one of the main advantages connected with bills of exchange is their *certainty*. It is always known when the bills will be paid in the ordinary course, and, provided they are good, that there will be a certain amount of money forthcoming upon a particular date. Moreover, the law with respect to these instruments is so exact, that mistakes are practically impossible, unless there is some fraudulent design connected with their issue and circulation.

At the risk of an accusation of repetition, it must be stated that the bills of exchange dealt with by bankers should be trade bills. And for that reason the business of discounting should be done with traders and traders only, unless, of course, a banker is ready to run risks with his eyes open. Again, it is always safer for a banker to deal with inland bills, and to leave foreign bills to bill brokers or similar persons. There may be exceptions to this last rule, but the banker must then rely upon his special knowledge and never act in the way of advances unless he is satisfied as to the financial ability and stability of the person with whom he is dealing.

When a trade bill is brought to a banker, and he is satisfied that it is such, that is, that it is the genuine outcome of a trading transaction, and that all that is required by the person offering it as security is a loan until the bill becomes due, he is generally willing to discount it, the amount charged for the accommodation varying according to the state of the money market. It is, of course,

presumed that the banker is satisfied as to the standing of the customer or other person with whom he is dealing. But before completing the transaction, the banker will carefully examine the bill to see that it is in order in every respect. It is unnecessary to repeat what has been said previously as to the form of a bill. But the following points must not be overlooked, otherwise trouble may arise. In the first place, the stamp must be of the proper value, as a bill of exchange cannot be stamped after execution. If, therefore, a bill is insufficiently stamped, it is of no value as a negotiable instrument, and of no use as a security. In the next place the bill should be dated. The absence of the date is not fatal, as by the Bills of Exchange Act, 1882, the proper date may be inserted under certain conditions. Still an irregularity of this kind is suspicious. Then the date when due should be upon the bill. Following upon what has just been said as to the date of the bill itself, the omission of the due date is not fatal. Strictly speaking, however, from the point of view of practice, it should be there, and the banker should see to its insertion.

After the stamping and the dating have been found to be satisfactory, the acceptance should be examined. Naturally, a banker would refuse to deal with any bill which was improperly accepted, or not accepted at all. It must then be seen that the amount expressed in figures agrees with the amount expressed in words. Lastly, the banker should insist upon the endorsement of the bill by the person for whom he discounts it. This is for the purpose of obtaining the additional personal security of that person in case of dishonour, for if a bill is dishonoured, the banker, as holder in due course, has a remedy against every person whose name appears upon the bill, whether as acceptor, drawer, or endorser, provided the proper steps are taken upon dishonour.

When he has at last decided to discount a bill, an entry will be made in the bank's " Discount Register," and the bill will be numbered. If the person for whom the bill is discounted is not a customer of the bank, the amount of the bill, less the discount charged, will be placed at his disposal in whatever way he wishes. If he is a customer—and bankers more often discount bills for customers than for other persons—the account of the customer is credited with the amount of the bill. The discount charged for the accommodation granted will then be debited to the customer. A note of

the due date of the bill will have to be made in the book kept for the purpose, so that presentation may be made at the proper time. This is a most important matter, because, if no proper presentation is made the drawer and the endorser are relieved from all liability on the bill,—though not of necessity on the consideration which the endorser may have received for the bill—and the banker may have to sustain any loss that arises if the acceptor turns out to be an unsubstantial person.

The so-called discount charged by a banker is different from true discount, but it is unnecessary to enter into any details as to this matter. It is, in reality, interest charged upon the amount of the bill, the time being calculated from the date of the discounting until the date when the bill becomes due. The discount rates charged by bankers fluctuate naturally according to the condition of the money market. There are two quotations of discount rates, the first being in respect of what are variously known as " best bills," " fine bills, or " fine bank bills." The second rate is in respect of " trade bills," the discounting of which we have just been discussing. " Fine bills " are those drawn upon banks and financial houses of unquestionable security; and if the rate of discount for these bills is, say, $3\frac{1}{4}$ per cent., the rate for good trade bills would be slightly higher, say, $3\frac{1}{2}$ per cent. Reference to these rates is frequently made in the excellent money articles of our great daily newspapers, and in more detail in the financial press.

Of course, bankers sometimes discount bills which do not quite come up to the standard of good trade bills. In these instances a higher discount rate will be charged, as the element of risk has to be taken into consideration. As regards the rate of discount for good trade bills, this is slightly higher than for " fine bills," as already stated. The difference in the rates is accounted for by the fact that, with good trade bills, the element of risk, although a comparatively slight one, nevertheless has to be taken into account.

Discounting Promissory Notes.

For the general purposes of the present volume, it has been unnecessary to enter into any details as to promissory notes. As, however, it sometimes happens that a banker is willing to make an advance against such a security, it is now important that the reader should have a clear idea of what a promissory note is. By the

Bills of Exchange Act, 1882, it is defined as "an unconditional promise in writing made by one person to another signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer."

The common form of such a document is as follows—

"LONDON, *June 18th*, 1913.

£50.

"Three months after date I promise to pay to Mr. Alfred Jones or order the sum of fifty pounds for value received.

"THOMAS SMITH."

The note may be drawn for any time, or on demand, and may be made payable to bearer, instead of to order, like a bill of exchange or a cheque. If payable to bearer it needs no endorsement; if to order it must be endorsed by the person to whose order it is made payable. If it is made payable "to me or my order," the maker must endorse it. The maker is the person primarily liable, as he occupies the same position as the acceptor of a bill of exchange. If the maker does not pay, any endorser is liable, provided the note is presented to the maker for payment within a reasonable time.

A promissory note may be made by two or more persons, the word "we" then taking the place of the word "I." According to the wording the makers may be jointly liable only or jointly and severally.

One other point must be noticed, namely, the stamp on a promissory note must always be an *ad valorem* stamp, even though it is drawn payable on demand, or at sight, or within three days after sight. (See page 46.)

The advance of money by a banker or any other person upon the security of a promissory note is really nothing else than a pure and simple personal loan transaction. The banker lends, the borrower promises to repay. For greater security, however, a banker will generally require the endorsement of one or more substantial persons to whom he may look for repayment if the borrower fails to fulfil his primary obligation.

A promissory note is a negotiable instrument in the same manner as a bill of exchange. If, then, a customer is the holder of a promissory note made by a third person, and desires to discount

it with a banker, the same considerations apply as in the case of the discounting of a bill of exchange.

Loans to Bill Brokers and Stock Exchange Members.

There is an enormous amount of business in the shape of loans under this heading, and the money that is available at the great London banks for this purpose is often spoken of as the "short loan fund." This money which is held available is borrowed, in the main, by a body of individuals who are known as "bill brokers." As so much of the trade of the country is carried on by a system of credit, bills of exchange of a trade character are in existence to a very large extent. The payee being in want of money cannot wait for the maturity of his bill, and he must have recourse to a bill broker, a man who has made it his special business to deal in such bills. The brokers buy up as many bills as they can, generally at a lower rate than that charged by the Bank of England, but as their own capital is often insufficient for the purpose they are compelled to apply to the banks for loans. These loans are often made for exceedingly short periods. Sometimes the period may extend to several days, but frequently money is lent for a single day, and on occasions from one afternoon until the following morning, loans of this last description being known as "over-night money." It is for the bill brokers to study the state of the money market so that they may obtain accommodation on the most advantageous terms. As a security the bill brokers often hand over bills of exchange, but sometimes they deposit documents which are known in the market as "floaters," that is, securities to bearer, such as Consol certificates, Exchequer bonds, or Indian railway bonds as collateral security for the repayment of the money at the specified time. It is only recently that certain London banks have taken up this particular class of business, which was formerly entirely in the hands of the bill brokers. In foreign countries the chief banks have occupied the same position as bill brokers for a long period.

When large numbers of bills are deposited, the amounts advanced are generally in round sums, *e.g.*, £20,000, £50,000, and so on.

There have just been indicated roughly what are the kinds of securities which bankers require when loans are made to bill brokers

and members of the Stock Exchange. The securities that are preferred are negotiable instruments, and especially such as are payable to bearer—bearer securities, as they are called. The banker must think of himself. If he takes negotiable instruments in good faith, and gives value for them, he is in an impregnable position if the loan is not repaid. True it is that in some cases the borrowers may have obtained the securities wrongfully, but if the banker is ignorant of any fraud, if he has no notice of anything being wrong, he cannot be compelled to restore the securities until his debt has been settled. The other parties must be left to pursue their own proper remedies. Bearer securities are naturally preferred so that no question can arise as to forged endorsements. No title can be made through a forgery. In the case of bearer securities no title is made through any endorsement—the title is complete without the endorsement, and the question of forgery does not come in at all.

But if the securities are not negotiable instruments and are not bearer securities, the banker is not so secure in his holding. It is quite true that he has them in his possession, and that he has what is called an " equitable title," that is, in strict equity and justice he ought to be enabled to retain the securities until his debt is paid off. But someone else may have the true legal title, and it may be that they have been obtained from that person wrongfully. Unless, therefore, the securities are negotiable instruments, when ownership passes by delivery in the manner just named, the legal owner is always preferred to the equitable owner, and a banker may be compelled to hand over the securities whether he has been repaid or not.

The whole position as to loans on the security of negotiable instruments, and as to notice to the bankers of the nature of such securities when offered to them, was threshed out in two well-known cases in 1888 and 1892—*Lord Sheffield v. London Joint Stock Bank, Limited*, and *London Joint Stock Bank, Limited v. Simmons*.

Shares in public companies are sometimes deposited as security. Unless the banker takes care to obtain the legal title to them they cannot be considered to be of a satisfactory nature. The mere deposit of the share certificates gives the banker nothing more than an equitable title, and if it turns out that there have been prior dealings with the shares, the banker may be postponed to the legal owner. In order to be quite secure the shares should be transferred into the name of the banker or into the name of a nominee. Again,

suppose the Articles of Association of the company require the transfer of the shares to be by deed—a very common state of affairs—it is not sufficient for the banker to take a blank transfer, as was commonly done until a judicial decision of 1893 showed this to be illegal, and then fill in the name of the transferee when the occasion for doing so arises. A deed requires that the name of the parties to it should be inserted, and if they are not there at the date of delivery, no name can be inserted afterwards. Owing to the liability which attaches when all calls have not been paid, it is not advisable for a banker to accept in any case as security shares upon which there is any call outstanding. It is the usual practice for notice to be given to the company that the shares have been deposited with the bank, the receipt of which notice is generally acknowledged by the company. It is scarcely necessary to add a word of caution against dealing in any way with shares in companies which are of an unstable character.

The loans to Members of the Stock Exchange are frequently renewed from time to time, or from one settlement day to the next, but it is only stockbrokers of good standing who can obtain large loans from the London banks. The rates of interest charged by the banks for these loans vary according to the particular state of the Money Market. If the supply of surplus money in London is large, the rates will be relatively low, and *vice versâ*. The rates of interest charged by the banks in this connection are mentioned from time to time in the Money Market paragraph of the financial press, *e.g.*—

"The joint-stock banks, as expected, charged $3\frac{3}{4}$ to 4 per cent. for the renewal of Settlement loans to the Stock Exchange."

Letter of Charge.

All documents which come into the hands of a banker in the ordinary course of his business are held by him with a special liability attaching in his favour. He has what is called a lien upon them. As we have seen in the case of negotiable instruments which are in order—whether bearer securities or order securities properly endorsed—the banker's title is complete. As to all others he has a *primâ facie* right, and except where the documents have been improperly obtained he can exercise his right of lien or his power of

detention until the obligation due to him has been fulfilled. It must, however, be carefully borne in mind that this lien does not extend to valuable articles left for safe custody, etc. These do not come into his hands in his character as banker, and consequently the banker cannot retain them in respect of his charges. For these he must rely upon his right of action at law.

But still, many a prudent banker desires some stronger safeguard than the mere deposit of documents, and for that reason he often takes, especially from bill brokers and members of the Stock Exchange what is called a "letter of charge." It is unnecessary to say anything with regard to this document, as it explains itself. Here is a common form of such a document :—

"In consideration of your advancing to me five hundred pounds I hereby deposit with you £700 Russian 4 per cent. bonds as collateral security for the due repayment of the said loan and interest at the rate of 4 per cent. per annum, or at such rate of interest as may be hereafter agreed upon : the present market value of the securities is £550. This value during the continuance of the loan I engage to maintain, and if the market value of the said securities declines, I hereby agree to deposit other approved securities, or to pay off a proportionate amount of the said loan before its maturity should you consider it necessary.

"Unless I am able to fulfil these conditions I hereby authorise you to realise at any time the said securities or any part thereof, and in the event of the loan not being repaid when due, I authorise you to deal with the securities as you think desirable, so as to repay the said loan or any part thereof with interest and expenses.

"These securities are to cover any other sum or sums of money for which I may at any time either alone or jointly with any other person or persons be indebted or liable to you while the securities or any part thereof remain with you."

The customer signs this letter of charge, the same being impressed with a 6d. stamp, or an adhesive stamp may be used if it is cancelled by the customer's name being written across it by the customer.

Overdraft on Current Account.

The loans with which we have dealt so far are those of a large character, and which are a part of the mechanism of commerce.

But apart from bill brokers, and members of the Stock Exchange, there are other people who are in need of loans, and it is necessary to see the practice of bankers with regard to them. It must not be forgotten, however, what has been stated as to the classes of borrowers. A joint-stock company only exists for the purposes for which it was brought into existence, and the strictest examination must be made of its powers before a loan of any kind is advanced, and also as to the regularity of its proceedings. A neglect of these precautions may lead to disaster. As to a partnership, the same rule applies as in the case of ordinary individuals. The liability of each partner is unlimited—that is one of the main points of difference between it and a joint-stock company, as the latter is only liable up to the extent of its capital. And of course the liability of an individual is unlimited. It will be recognised that the liability is a totally different thing from the ability to repay. A man may incur liabilities up to millions, and yet be unable to pay a single penny.

Under modern banking practices no loan in the shape of an overdraft, except to a very limited extent, will be entertained without some species of security, and it is our business now to inquire into the nature of the securities which a banker will accept. Negotiable securities, especially of the character already referred to, and share certificates, if they comply with the conditions before mentioned, will be accepted, but there are others which are often available and acceptable, in addition to the well-known financial stability of a customer which may, within the limitations we have spoken of in the first chapter, be itself sufficient to induce a banker to entertain an application for a loan in the shape of an overdraft. One additional precaution may here be mentioned, and that is, where any doubt exists as to the character of the security handed over, the advice of the bank's solicitor should be sought before the final step is taken.

After negotiable documents and share certificates, the next kind of security to be noticed is that of a life policy. This is a form of security against which a banker will be willing to advance money, either by way of loan or by granting his customer an overdraft. The banker may require an assignment of the policy, which is always advisable unless the borrower is a very substantial person, or he may simply take the policy as a deposit and

evidence of the loan. The amount of the loan granted against such a security will vary according to circumstances, but in no case should it exceed the amountwhich the insurance company would be willing to pay for a surrender of the policy. Then therewill be this final inquiry by the banker. He will want to know whether there are any existing charges upon the insurance company as to the policywhich has been assigned to the bank as security for an advance, and he will request that a notice of the assignment be entered on the company's books. The company will then forward to the bank an acknowledgment of such notice. For registering assignments, insurance companies charge a fee which the customer will be required to pay. The banker will take care to see that the renewal premiums are duly paid, so that the policy shall not lapse. It may be stated that a banker will require the age of the party assured to be admitted on the policy offered as security. When the overdraft is paid off, the policy is re-assigned to the customer.

Life policies are not considered a very good cover for an advance, from a banker's point of view, and the policies issued by Friendly Societies are an unreliable form of security. The great risk which is run is that the assured may do something which will vitiate the policy. This makes the utmost precaution on the part of the banker all the more necessary.

Amongst the other kinds of securities deposited with a banker in order to cover advances made, by overdraft or otherwise, we may mention bills of lading, dock warrants, and delivery orders. All these documents possess many of the qualities of negotiable instruments, although, legally, they cannot be strictly styled as such. A person who is the holder of a bill of lading, etc., is *primâ facie* entitled to the goods named in them, and if he demands the same from the person who has the goods in his possession, the latter cannot retain them if his charges are paid, unless there is some other person who has a prior claim arising out of other dealings. When an advance is made upon the security of any of these documents, the bill of lading, etc., is endorsed to the banker, and he is then in a position to realise his security if the loan remains unpaid. The Factors Act, 1889, has been of peculiar value to bankers in this respect, for it has conferred upon them the right of pledging goods which they have in their possession, or of which they hold the documents of title, under certain conditions. The second section of

the Act provides that where a mercantile agent (and this includes a banker) is with the consent of the owner in possession of goods, or of the documents of title to goods, any sale, pledge, or other disposition of the goods made by him when acting in the ordinary course of business of a mercantile agent shall, subject to the provisions of the Act, be as valid as if he was expressly authorised by the owner of the goods to make the same; provided that the person taking under the disposition acts in good faith, and has not at the time of the disposition notice that the person making the disposition has no authority to make the same. It is further provided by section 3 of the Factors Act that a pledge of the documents of title to goods is to be deemed the same thing as a pledge of the goods. It is necessary that any documents which accompany the bills of lading etc., such as insurance policies or certificates of insurance, should be deposited with the securities; and it is also advisable that a note or memorandum should be taken whenever any kind of deposit is made.

Advances are sometimes made upon bills of sale. The stringency of the law as to these documents is such that a banker ought to take the advice of his solicitor before having anything to do with them. The pitfalls which surround bills of sale are such that they should be the last kind of security upon which a banker should think of making advances.

A guarantee is another form of security. This has been defined as a promise to answer for the debt of another, made to a person to whom that other is, or is about to become, liable. By the well-known fourth section of the Statute of Frauds, such a promise must be evidenced by writing, and must be signed by the person who agrees to be responsible. As difficulties often arise upon the construction of this document, a guarantee must be most carefully drawn. Unless it is under seal, that is, made by deed, there must be some consideration moving from the creditor to support the agreement, but since the passing of the Mercantile Law Amendment Act, 1856, it is not absolutely necessary that the consideration should be set out in the document.

A guarantee arises in this way. There is an agreement existing between two or more parties, and a third person then comes forward and by means of another agreement this third person becomes responsible for the carrying out of the original agreement

in case there is a failure to do so on the part of the original persons.

The rights of a banker under a guarantee, when the original debtor fails to fulfil his obligations, will depend upon the wording of the instrument. If it is signed by one person only, that person alone is liable to reimburse the banker for what he has lost. If a guarantee is given by two or more persons, and if it is made joint and several, a banker may proceed against any or all of the parties. He must, however, exercise great care in pressing his remedies. He must also see that during the continuance of the guarantee there is nothing done which changes the nature of the original contract, for if the position of the parties is altered in any way, the guarantor may be prejudiced in his position, and the general law of contract will apply and release him from his liability. The questions which arise are often of great nicety and complexity, but the most important of them is that which refers to limited and continuing guarantees. In the case of the former the guarantor limits his liability to a certain time, or to a certain number of transactions, or to matters which have reference to some particular set of circumstances. A continuing guarantee is one of a wider character. It continues until it is revoked by due notice or by the death of the guarantor. When the document is properly worded, however, none of these difficulties should arise.

The following is a common form of a continuing guarantee, that is, a guarantee which is not terminable upon a certain condition being fulfilled, but which runs on until notice of its termination has been given or until the death of the guarantor.

" In consideration of your continuing the account opened with you by John Jones (hereinafter called the customer) and now overdrawn, and as a security to you in respect thereof, I, the undersigned, William Brown, hereby undertake and agree to pay to you within seven days after demand the balance which on the account current of the said customer with you shall for the time being be due or owing from the said customer or his representatives for moneys so overdrawn, for bills and notes discounted and paid, and for other loans, credits, and advances at any time hereafter made to or for the accommodation or at the request of the said customer, and for any moneys for which he may become liable alone or jointly with any other person or persons to you on any account whatsoever,

and for interest, commission, and other usual Bankers' Charges: provided always that this guarantee is not to extend my liability beyond the sum of five hundred pounds (£500) with costs, charges, and interest at 5 per cent. per annum from the date of demand, but the same shall be a continuing guarantee and shall bind my representatives, and I further agree that if you shall at any time receive any dividend or dividends or composition from the said customer or his estate on a debt then owing from him to you or from any person or persons jointly liable with the said customer or liable as a surety for him or his or their estate, such dividend or dividends or composition shall not be applied rateably to the said debt but shall be taken as a payment in gross on account of such debt, and you shall be entitled to recover the remainder of the said debt in this guarantee to the full extent of the sum of five hundred pounds (£500) with costs, charges, and interest at 5 per cent. per annum from the date of demand.

"And that this guarantee to the same extent shall be considered as additional to any other security you may be entitled to and upon the realisation of which any part of the debt of the said customer may be paid, and that you may at any time compound with the said customer for the whole or any portion of his liabilities to you with any person or persons jointly liable with the said customer or liable as surety for him.

"And I further agree that for all moneys to which this guarantee extends I am to be considered as the principal debtor, and that no release of or other arrangements with the said customer or any other person or any act or omission on your part or any other matter or thing shall operate to release or exonerate me or my estate or affect any liability under this guarantee.

"And this guarantee is intended to be a security for the balance for the time being to the extent of five hundred pounds (£500) with costs, charges, and interest at 5 per cent."

This document is signed by the guarantor, and since it is an agreement it requires a 6d. stamp.

A banker also makes advances against deeds relating to land, house property, etc., although this class of security is not in particular favour with bankers, as it cannot be promptly realised, and a forced sale will very often result in a price being obtained which is very much below the normal. Under these circumstances, therefore,

a banker will require a very substantial " margin " before making an advance. It has already been pointed out that prudent bankers ought not to grant loans for lengthy periods, and it is almost always the case that persons who desire to borrow upon the security of landed property are seeking for more or less permanent loans. Bankers cannot allow their capital to be locked up indefinitely. It is better for them to leave matters of this kind to solicitors, who can generally find clients who are willing to advance money upon mortgage at a lower rate than would be prudent on the part of the bankers, and also for larger amounts.

Still, advances are occasionally made upon this kind of security, and in order to avoid difficulties the utmost care must be exercised. The title-deeds, which will be naturally deposited with the bank, must be examined in the first instance to see that everything is in order, and that if the realisation of the property is eventually necessary the banker will not be met with claims which may take precedence over his own. The deposit of the title-deeds with or without a memorandum of deposit, which is a document setting out the terms under which the deeds are placed in the custody of the banker, constitutes what is known as an equitable mortgage. For most purposes an equitable mortgage is nearly as valuable a security as a legal mortgage. The remedies of an equitable mortgagee, it is true, are not the same as those of a legal mortgagee, but after an application to the courts of law there is probably a right to obtain an order for sale as well as foreclosure—the two principal powers of a legal mortgagee—and these are generally all that are needed. A banker may further secure himself by obtaining an undertaking from the borrower to execute a legal mortgage if called upon to do so, and if there is such an undertaking in existence the borrower will be compelled to act in accordance with his undertaking.

As is well known several mortgages may exist in connection with the same property. And there is a doctrine of law, known as " tacking," by which a third or subsequent mortgag e without notice may redeem a first mortgagee and gain priority over a second or later mortgagee. Similarly a fourth mortgagee may tack on a first or second mortgage and squeeze out the second and third, or the third, and so on. For this reason no banker should advance money upon any mortgage other than a first.

It is scarcely necessary to say that the property should be most carefully valued, and if there are buildings upon the land a proper allowance should be made for deterioration before deciding as to the amount of the advance which can be made with safety. The question of insurance must not be lost sight of, and if the property is leasehold, the length of time which the lease has to run is one of the most important factors for consideration.

There are other matters connected with advances made upon the security of title-deeds which need careful inquiry; but these lie more within the province of the bank's solicitor than of the banker himself. Indeed, it may be stated as a broad proposition that it is absolute folly for an advance of this kind to be made at any time without adequate legal advice.

Generally speaking, English banks invest only a comparatively small proportion of their resources against the security of title-deeds of land and property. The Australian banking crisis of 1893 was mainly due to the fact that the banks there over-advanced, with an insufficient "margin," against land and house property, and at last became loaded up with that class of security at inflated values. When the banks endeavoured to realise these securities they could not obtain anything like the amounts they had advanced, and, as a result, only a few of the banks survived the crash that followed. It may be stated that this excessive advancing was largely brought about by the over-competition existing at that time between the banks in Australia. Most of the banks that failed during the crisis of 1893 were reconstructed, and Australian banking business is now in a prosperous and healthy condition. The lessons of 1893 were severe ones, but the mistakes made then are not likely to be repeated. During the last few years, bankers in England have kept a larger percentage of liquid assets than formerly, and a better margin of safety has been thereby secured. It is a tribute to the general soundness of banking principles in this country, that, notwithstanding the increased competition which has existed during the past few years, banks have, in the main, exercised great care in the manner in which they advance money.

Loans are sometimes made against the security of what are known as reversions. Speaking generally, a reversion is a future right to property, a right to which a person will be entitled under some will or settlement after the lapse of a certain period or upon the death

of some person or persons, who may or may not be in present enjoyment of the property. It is only after the strictest inquiries and the most careful examination of the documents under which the reversion arises that an advance should be made against a security of this kind. The reversion should be absolute, that is, one that is certain to fall in at some date, no matter what the reversioner may do in the meantime.

Advances to Municipal and other Authorities.

At the present time large sums are advanced by bankers, in London and the country, to municipal and other authorities. The banks have competitors, however, as insurance companies now largely invest their funds by way of loans to public bodies.

There is a certain glamour attaching to the position of treasurer to corporations, county councils and other public bodies. Bank managers do all in their power to obtain such an appointment, as it carries with it the keeping of the banking account of the body in question. It is contended that the appointment of a bank manager as treasurer to a municipal or other public body, gives to the bank he represents, a certain amount of prestige. In any case, there is a good deal of competition to secure the accounts of these public bodies.

Now corporations and other public bodies are quite aware of the competition existing between the banks to obtain their accounts. As a result, these bodies frequently impose terms upon their bankers which are hardly remunerative, and occasionally cause the banker to depart from sound banking principles by granting a loan which is to be repaid over a term of years. This class of business is more applicable to an insurance company, which is not bound to keep its assets in a liquid state to the same extent that a banker has.

Sometimes on bank balance sheets one sees after the item " Investments," a note to the effect that, " Of which £----------is lodged for public accounts." This means that the public bodies, whose accounts the bank have, make it a condition that the bank shall " earmark " certain of its investments as security for the balance held by the bank. This, of course, has the result of depriving the creditors of the bank of a part of their rightful security. A banker, whilst disliking the proceeding, does not decline, because

he knows that other banks in their desire to obtain the account would also earmark their investments. The proportion of investments earmarked in this way is not large; if it were, the security of the depositors would be somewhat weakened.

The system of our local government is an intricate one. Some towns are incorporated by an Act of Parliament or a Charter, and have a Borough Council or Municipal Council. Others are ruled by additional forms of Municipal Authority. Then there are places controlled by County Councils or Rural District Councils, and many other bodies concerned in the administration of local affairs. These various local authorities are the creations of statute, or in certain special cases, of a charter or other similar instrument. Their powers are limited by statute, and anything they do beyond that statutory or corporate power is *ultra vires*, *i.e.*, beyond their powers, and null and void.

Recently, there have been some legal actions arising out of overdrafts granted by bankers to municipal and other authorities. If a local authority has no power to borrow money, an overdraft granted to it is *ultra vires* and not recoverable. If the local authority has power to borrow money subject to certain conditions (such as the sanction of the Local Government Board) and obtains an overdraft without satisfying the required conditions, such an overdraft is also *ultra vires*. Before making an advance to a corporation, a bank will now (in view of the recent litigation on the matter) submit the full details to the bank's solicitors for a strict legal scrutiny. The borrowing powers of corporations and other public bodies are governed by a complexity of statutes, viz., Local Government Acts, Poor Law Acts, Public Health Acts, and so on. These various Acts denote how much may be borrowed, on what security, whose consent is necessary, the form in which the loan must be made, and so on. Further, these questions depend upon an intricate maze of statutes and legal decisions, and the matter of an advance to public authorities is one for the very careful consideration of the bank's legal advisers.

Overdraft or Loan Account.

When a banker has satisfied himself that he can safely make an advance to his customer, he generally does it in one of two ways,

either by means of an overdraft upon a current account, or by way of a loan. By the former method, the customer is permitted to draw upon the banker up to the sum agreed upon, the banker charging interest up to the amount overdrawn, which interest is agreed upon between the banker and his customer. By the latter method, the whole amount lent is placed to the credit of the customer on his current account, a lump sum being charged for interest. In practice the rate of interest charged is less in the latter case than in the former. As an extra precaution, a banker should always insist upon his right to recall the amount of the loan at short notice, so that if it is seen that complications are arising the probable loss may be reduced to a minimum. All operations connected with the accounts of customers who are thus accommodated require the most careful supervision. It must not be forgotten—and this emphasises the necessity of the banker insisting upon recalling his advance at short notice—that when an overdraft has been allowed to a customer, a banker cannot dishonour the customer's cheques without reasonable notice.

The system of advancing money upon a loan account is the usual custom adopted in the City of London. In the provinces, however, money is generally advanced by way of overdraft ; whilst in the suburbs, both methods are adopted. Therefore, in this last instance, some customers are allowed to overdraw up to an agreed sum, and others are debited in a loan account with the amount advanced.

In addition to the interest charged on a loan account, it should be mentioned that there are some banks in the City of London which also make a small charge for commission on the amount of the loan, say, $\frac{1}{8}$ per cent., adding such charge to the interest. It may also be stated that where an overdraft has been granted, there are some banks which will charge a commission on the turnover of the current account in addition to the interest on the daily debit balances.

Now let us take an example of a loan account, and see how it is operated. We will suppose that Mr. Henry Jones having lodged with his bankers approved securities, is granted an advance of £4,000—which sum is debited to a loan account and credited to his current account. The rate of interest to be paid is, say, 1 per cent.

above Bank Rate with a minimum of 4 per cent. The account will therefore appear as under.

Rate 1 per cent. above Bank Rate, minimum 4 per cent.

LOAN ACCOUNT. HENRY JONES, Merchant, 200 Cheapside, London, E.C.

19..		Dr.	Cr.		Balance.	Days.	
		£	£		£		£
Dec. 31.	To Transfer to Current %	4,000		Dr.	4,000	62	248,000
19..							
Mar. 3.	By Transfer from Current %		300	Dr.	3,700	58	214,600
Apr. 30.	By Do. ..		300	Dr.	3,400	52	176,800
June 21.	By Do. ..		200	Dr.	3,200	9	28,800
,, 30.	By Balance		3,200	Dr.	3,200		
		£4,000	4,000			181	668,200
June 30.	To Balance ..	3,200		Dr.	3,200		

In the above account, Mr. Henry Jones, finding that the balance on his current account is considerable, transfers (as, of course, he is quite at liberty to), on 3rd March, £300 to the credit of his loan account, which, therefore, reduces the debit balance on that account, and also lessens the amount of interest to be paid. This was repeated on 30th April and again on 21st June, on which dates £300 and £200 respectively were transferred, as will be observed from the account. In arriving at the amount of interest to be paid, we proceed in the same manner as has been already explained in the previous chapter. We extend the " decimals," which we find amount to 668,200, and then ascertain their value in the manner already explained. During the six months covered by the specimen account, we will assume for the sake of simplicity that no change in the Bank Rate took place, and it was 4 per cent. on 31st December remaining unchanged until 30th June. As a matter of fact, the Bank Rate would not be the same for such a long period as six months, but in calculating the interest, any changes would be dealt with in the same way as has been shown in the case of current accounts. In our example then, as Bank Rate was 4 per cent. for the six months, the rate to be paid by the customer is 5 per cent. ; therefore the interest is on " decimals " amounting to 668,200 at one rate only,

i.e., 5 per cent. The interest equals £91 10s. 9d., which sum is debited to the current account under date of 30th June. It will be observed from the total days shown in the above account, that the year was not taken as being leap-year.

Advances Granted by Managers.

The granting of advances to customers is now very largely under the control of the Advance Departments of the head offices of the joint-stock banks. It should be mentioned, however, that frequently managers have what is known as a "discretionary power" in the matter of loans; that is to say, the managers may grant loans on their own initiative up to certain sums, without previously placing the application before the Advance Department. This "discretionary power" varies. At a City office it may amount to about £1,500 to £2,000, whilst at metropolitan branches the amount may range from about £100 to £500 according to the importance of the branch. In the country, the amount will vary in accordance with the business done at a particular branch. These advances are made very carefully, as they subsequently have to bear the criticism of the Advance Department.

So far the securities deposited with a banker are those which come into his hands through his peculiar position as a banker. When other valuables are placed in his possession, he holds them in a different manner and for other purposes. These we shall consider in the next chapter.

CHAPTER IX

THE GRATUITOUS SERVICES OF BANKERS

In Chapter VII we discussed those instances in which a banker charges his customer for services rendered. We have now to deal with the cases in which a banker makes no charge for his services. A considerable amount of gratuitous work is performed by bankers for their customers, and these services are often accompanied by responsibilities and risks on the part of the banker, as we shall see later.

(1) Safe Custody of Valuables, etc.

Bankers very frequently undertake the custody of documents and valuable articles of property. The customer is attracted by the strong rooms and safes of a bank and considers his goods absolutely secure. Plate and jewels are the articles most commonly deposited, and of these the banker undertakes the care. If there is any charge made, the liability of the banker is very considerable—he is little short of an insurer. But it is the common practice to make no charge to a customer for such services, and it seems, although there is no legal decision exactly on the point, that in such a case the position of the banker is that of a "gratuitous bailee," that is, he must take all ordinary care of the valuables left with him, and not take greater risks than he would do if the articles were his own. Still it might be urged that there is some consideration for the custody, seeing that a profit is supposed to be made by him through the customer's account. As we have said, however, this point has never been exactly decided. The valuables must be given up on demand to the owner, and it is here that the banker may run some risk if he gives them up under a forged order of the customer. Such an act may render him liable for an action for what is known in law as "conversion," that is, the wrongful dealing with the property of another person. We have seen that a banker is liable if he pays an ordinary bill of exchange under a forged signature—although he has statutory protection if he pays a bill on demand, that is, a cheque under a forged endorsement—but to what extent he is responsible for any loss accruing to a customer through a forged order for valuables deposited with him is unknown.

Some years ago it seemed probable that this would be settled in a case where a banker had given up jewellery to the value of £10,000 under such a forged endorsement, but a compromise was arrived at and the state of the law on the subject is not fully known. For his own security, therefore, a banker ought to enter into some special contract with his customer so as to avoid difficulties of this character.

When sealed boxes, packets, or securities are deposited for safe custody, a good many banks give no receipt therefor. Then, again, there are some banks which give a receipt in which all responsibility is disclaimed. In cases where no receipts are given for the deposit of articles for safe custody, a bank will, if required, write the customer a memorandum to the effect that certain boxes, packets, or securities have been lodged for safe custody. This formal communication addressed to a customer would be of no use to a fraudulent person who desired to obtain possession of articles lodged with a bank. Most banks do not give receipts for articles lodged for safe custody, the reason being that such receipts may get into the wrong hands.

It should be noted that, in the case of those banks which give receipts in this connection, they do not incur any additional responsibility by doing so. When valuables or securities are deposited in a sealed box or packet, a bank accepts no responsibility for the contents. Therefore, when receipts are issued or a memorandum is merely handed to the customer, the bank uses the words " contents unknown."

When articles are lodged for safe custody, definite instructions will be required by the bank as to who is to have access thereto. For instance, a customer may leave sealed boxes or packets with a bank for safe custody, and at the same time give an order to the bank to allow his (the customer's) solicitors to have access thereto. The solicitors would not be allowed to remove the boxes or packets, even if they offered to give the bank a receipt. As an order to allow a particular person to have access to a box or packet deposited for safe custody does not imply that anything may be removed therefrom, it is customary on such occasions for an official of the bank to be in attendance in order to see that nothing is removed. Of course, in many instances, the customer alone will be the only one who is to obtain access to the boxes or packets lodged. When authority is given to the banker to deliver up to a certain person

all or any of the contents of a sealed box, a specimen signature of such person will be required, otherwise the bank will be unable to identify the applicant.

When a customer who has deposited articles for safe custody subsequently becomes bankrupt and applies to a banker for the delivery thereof, the banker will refuse the application and will only deliver up the articles on the authority of the Official Receiver.

In cases where, say, a sealed box is lodged with a bank for safe custody, and the customer gives no instructions as to whom the box is to be delivered on his decease; on the occurrence of this event, the banker will not hand over the box and its contents until probate of the will is produced. When this document is exhibited, the bank will then deliver the contents of the box to the legal representatives of the deceased, against a receipt signed by all of them. Should, however, the will of the deceased be in the box, this document would be handed to the executors named in the will (against their joint receipt) before production of probate. It is in cases where a box contains other things (as for instance, stock certificates, bearer bonds, or share certificates) that the usual custom is for the probate of the will to be exhibited to a bank.

It must be remembered that as regards documents which come into his possession as banker, the banker has a lien, or right of retention, until his charges are settled. No such lien arises, except by special agreement, in the case of other deposits.

(2) Executing Standing Orders.

This is the second instance of services performed by a bank, and in respect of which a customer is not charged. A customer may instruct his banker to pay a certain sum at a stated time, and the main instances of this are in the payment of annual subscriptions to clubs and societies. Many persons, instead of sending their cheques for subscriptions direct to a particular club or society, instruct their bankers to do so, as and when such subscriptions are due. In these instances the bank pays the subscriptions direct to the bankers of the particular societies or clubs, and then debits the account of the customer for the payments made. A large number of subscriptions are now paid in this way, with the result that banks, in the West End of London particularly, have a considerable volume of work to deal with in this connection during January, when most

subscriptions are payable. The paying bank supplies the receiving bank with full particulars of the names of the subscribers, and also of the various clubs or societies to which the amounts refer.

In order that this work may be promptly carried out, banks keep what is usually termed a " Standing Orders Diary." This book is ruled to show the name of the customer on whose behalf the payment is being made, the bank to receive the amount, the name of the club or society to be credited by the receiving banker, the date on which the payment is to be made, and the amount of the subscription.

(3) Payment of Dividends and Interest.

It is the custom for dividends on shares or interest on stocks to be forwarded by post to the proprietor in whose name the investment is registered. In the case of a joint holding, the warrants for dividend or interest are sent to the first-named holder in the joint account. If shares stand in the names of, say, John Brown and Henry Jones, the warrant would be sent to the first-named. In the case of shares or stock standing in the name of a deceased holder, the warrant would be forwarded to the first-named executor.

It is becoming the custom for the holders of shares or stocks (instead of having the dividends or interest sent direct to them by post as mentioned above) to give instructions for the amounts to be forwarded as and when they are due, direct to their bankers.

Special forms are generally required to be signed, and may be obtained from the company or bank that pays the dividend. Many companies pay their dividends themselves, but in some cases banks do this work for companies and other bodies. If a person was to send merely a letter in this connection, it might be accepted provided it was properly worded. In the great majority of cases, however, instructions given by letter are incomplete or inaccurate ; consequently letters of this description will, in many cases, not be acted upon.

When a dividend request form (or a " mandate," as it is sometimes termed) is signed, a customer should send it through the bank at which his account is kept and to which the dividends are to be paid. The form should not be sent direct to the company or to the agent by whom the dividend is paid, but should be handed to the customer's banker as above described. Now there are branch banks throughout the country which are from time to time receiving from their

customers these dividend request forms. If the books of the shares or stock concerned are kept in London, the forms—after being duly noted in the books of the branch—will be sent by the manager to his head office in London. The reason for this is, that, as a general rule, the Bank of England, which, as is well known, pays the dividends and interest on many different classes of investments, will not undertake to send dividends direct to a country branch bank having a head office in London. The Bank of England requires such head office to claim all dividends payable under request forms signed by the customers of their London, as well as of their country branches. Most of the large railway companies follow the procedure of the Bank of England, and will not undertake to forward dividends to the various branches of a bank. In practically all other cases, companies —and bankers and agents entrusted with the payment of dividends or interest—will forward the warrants direct to a branch bank. Particulars of all dividend request forms received from branches are entered in the London office books of a bank, so that when the London office receives the various dividends, the respective amounts may be duly advised to the branch concerned. On receipt of the advice, the customer's account at a branch will be credited.

(4) Transfers from one Branch to Another.

A customer of a bank may pay in money at any of its branches for the credit of another branch where his account is kept. This facility has come into prominence during the past few years, as an outcome of the extension of branch banks by reason of amalgamations. When a branch receives cheques from a customer for his credit at some other office of the bank, the branch receiving the cheques will proceed to collect them in the ordinary way. Full particulars of the payment received will be promptly advised to the branch where the customer's account is kept.

This facility is no doubt of much convenience to customers of banks, and many readily avail themselves of it.

(5) Coupons and Drawn Bonds.

Banks perform a large amount of labour in the collection of coupons for customers. This class of work is very unprofitable from a banker's point of view, as no charge is made to the customer for the services rendered herein, and the large banks have to employ a certain number of clerks exclusively for this purpose. The volume

of this class of work is increasing rapidly; so much so in fact, that the suggestion has lately been put forward in banking circles that some system of " clearing " coupons should be established on similar lines to those already existing with regard to cheques.

Now let us consider what a coupon is. Foreign Government Stocks and American Railroad Bonds are generally represented by bonds to bearer. The name of the holder is not inscribed in the books of the government or company. In the case of ordinary stocks or shares the name of the holder appears in the books of the company.

Bearer bonds pass from hand to hand, and the bank or financial house entrusted with the management of bearer bond issues does not know either the name or address of the person who holds the bonds. In the case of stocks or shares inscribed in the books of a company, the cheque for dividend or interest will be sent to the holder at his registered address. It is with regard to the payment of interest on bearer bonds that coupons play an important part. Coupons are small tickets or slips that may be detached from bonds, and each slip represents a certain amount of interest to be paid. Let us take a simple example of this. Suppose a person holds, say, a £100 bond bearing interest at the rate of 5 per cent. per annum and redeemable twenty-five years after issue. When the bond is issued in the first place, there will be attached to it fifty tickets or slips, each bearing a different date (half-yearly) which shows when each half-yearly payment of £2 10s. is due. The great majority of coupons are payable on 1st January and 1st July respectively, and customers should not send them direct to the agent or bank by which they are payable, but should hand them to their own bankers for collection. Coupons payable on the above-mentioned dates should be lodged by customers with their bankers about a month before.

In the case of our great banks, a very large number of coupons are remitted for collection to the head office of the bank, by the various country and metropolitan branches. Then there are, of course, those paid in by the head office customers. The coupons are listed and entered by the Coupon Department of the banks, and taken by " walk " clerks to the various banks or offices where they are payable. A receipt (or " ticket " as it is often called) is given in exchange for the coupons. This ticket is presented (on the date named thereon) to the same office, by the bank that lodged

the coupons, when payment is made—in the form of crossed cheques to bearer.

The bank receiving the coupons from the presenting bank proceeds to examine them, and marks them off as paid, in books numbered in accordance with the numbers appearing on the coupons. When everything is in order, the coupons are cancelled by punching holes in them. By marking off all coupons presented and paid, it may, of course, be seen what are outstanding—*i.e.*, not presented for payment.

When the coupons have been duly paid, the head offices of the banks will credit their customers' accounts, and will also advise the various branches, when the accounts of customers there will be also credited. It should be mentioned that coupons are paid less tax ; but if a customer is not liable to pay income tax, his banker will obtain a " certificate of deduction of income tax," so that the customer may reclaim the amount deducted.

A good many customers instead of retaining bearer bonds themselves deposit them with their banker for safe custody, at the same time giving instructions to the banker to cut off the coupons as they mature, and credit their current accounts with the proceeds. No charge is made to the customers for this facility. Particulars of the securities will be entered in the bank's books, and the accounts of the customers will be duly credited with the proceeds of the coupons each half-year.

Let us now consider the part played by a banker in connection with "drawn bonds."

Irredeemable stocks are not now as numerous as redeemable stocks. In the case of the latter, there is always a process of " amortisation " taking place. This is a term used to signify the repayment of the loan or debt either partially or completely. When, for instance, a foreign government borrows money, besides paying interest on the loan, it is regularly setting aside a certain sum for the amortisation—*i.e.*, the repayment of the loan. The fund to which these sums are placed, until such time as a part or the whole of the loan is redeemed, is termed a " sinking fund."

Redeemable loans may be paid off in various ways. One way is to use the sinking fund for purchasing back the stock whenever the price is favourable. Another method is to allow the sinking fund to accumulate until it equals the amount repayable on the due

date. The most frequent method, however, and one which readers may have sometimes noticed in the financial press and the money pages of our daily newspapers, is by means of "redemption drawings."

Now when bonds to bearer are issued (especially in the case of foreign governments and corporations borrowing in London) it is stated on the prospectus of the loan that a certain sum will be set aside, say, annually, to redeem a number of the bonds at certain periods and at a given price. In this instance it is obviously the fairest method that the bonds to be redeemed shall be decided by lot. All the bonds bear numbers, and these numbers are mixed together indiscriminately. Numbers are then drawn representing the value in bonds equivalent to the sum that the borrowing government or corporation has set aside for the purpose. These bonds are then known as "drawn bonds," and their numbers are advertised. When bonds to bearer have been deposited with a banker for safe custody, and with instructions to the banker to cut off and collect the coupons as and when they become due for payment, the banker will also watch the lists of drawn bonds and collect the amount in respect thereof. There is, however, no obligation on the banker's part to render this last-named service; and should he overlook a bond which has been drawn, he will decline to accept any responsibility for the omission. This is, of course, quite reasonable, as the service rendered is a gratuitous one, and when bonds are lodged with a banker with instructions to cut off and collect the coupons when due, it is not incumbent upon him to watch the lists of drawn bonds, as has been already pointed out. It very rarely happens that a banker makes an omission of this description.

When the coupons attached to a bond in the custody of a banker are exhausted, he will obtain a fresh sheet, and the customer is saved all trouble in this respect.

The numbers and descriptions of bonds drawn for redemption are advertised in the columns of *The Times* and in the *Bondholders' Register* (published fortnightly).

We have now discussed the services rendered to a customer by a banker in respect of which the former is not charged. In addition thereto, bank managers and other officials are always ready to render customers any service in connection with their banking accounts, provided, of course, such services are in accordance with the rules of the bank.

CHAPTER X

THE BANK OF ENGLAND

Introductory Remarks.

It may appear remarkable, from one point of view, that banking did not develop in England until a much later period than it came into general use on the continent; but it was the weakness of public credit which interfered so much with its chances. After the Revolution of 1688, when parliamentary responsibility and control over the public finances were introduced, a new era began, and the establishment of our great Bank became possible.

The credit of devising and founding the Bank of England in 1694 belongs to a Scotsman, William Paterson. It was incorporated by Act of Parliament, and it is, in fact, the only English bank which is so incorporated. Its capital was £1,200,000, and the sum was lent to the Government of the day, the money being required by William III to carry on his war with Louis XIV of France. In return for the loan, interest was made payable at the rate of 8 per cent., and an allowance of £4,000 a year was granted for management, so that the whole payment made by the Government was £100,000 a year. According to its charter, the management of the Bank of England is committed to a governor, a deputy governor, and twenty-five directors, elected by the stockholders. The corporation were not to trade in goods, but they were allowed to make advances upon, and to deal in, bills of exchange, and to issue "bills payable in coin on demand," and transferable "to bearer on demand." The privilege of issuing notes was conferred to the amount of the loan made to the Government, namely, £1,200,000. At first the charter was granted for a period of eleven years only; but in consequence of the great services which it has rendered to the Government at various times, its charter has been renewed again and again, the last occasion being under the Bank Charter Act, 1844, which may now be considered as the Act under which the Bank exists. The original capital of £1,200,000 was gradually augmented until, in the year 1816, it reached the total of £14,553,000, which is the sum remaining to-day and upon which the stockholders draw dividends. It is interesting to note that this capital of

£14,553,000 is nearly equal to the combined capitals of the Bank of France and the Imperial Bank of Germany.

In addition to the original loan of £1,200,000, the Bank has advanced other large sums to the Government on various occasions, and whenever an extra loan has been made, the Bank has taken care to obtain some fresh privilege in return. It was stated in the last paragraph that its original charter was for eleven years only, but the authorities have been careful to have its renewal provided for on each occasion well in advance of the determination of the prior period. In point of fact, the Bank has traded somewhat upon the necessities of the Government, knowing well that these necessities could only be provided for by a direct application to the Bank. It is interesting to the historian and to the statistician to trace the events which accompanied these various borrowings, but they are not necessary for our present purpose. We are considering the Bank of England as it is established and as it stands to-day. Reference, however, must be made to the year 1826, when it became possible for joint-stock banks to be established in this country, for it was in that year that the Bank obtained the monopoly of issuing notes in London and sixty-five miles round, and at the same time opened branches in Gloucester, Hull, Manchester, and Swansea. The Gloucester and Swansea branches are now closed, but others have been opened at Birmingham, Bristol, Leeds, Liverpool, Newcastle, Plymouth. Other branch establishments have since been opened in various towns. The business which is conducted at the branches is similar to that carried on at an ordinary branch of a bank, but, in addition, bank notes are able to be issued from various of these branches.

The Bank Charter Act, 1844.

This Act, which is the most important statute regulating banking in England, was passed for the purpose of securing the convertibility of bank notes, that is, the right of the holder of a bank note to have it exchanged for coin by the bank issuing it upon demand. It was felt, in various quarters, that the excessive issue of bank notes, especially local issues, had been responsible for recurring financial crises, and it was hoped that the Act would put an end to these troubles. This end has not been altogether attained, but the Act has had a very powerful influence over the financial business of the nation.

Let us briefly review some of the main provisions of this Act of 1844. The undermentioned paragraphs are not the precise wording of the Act, but they contain the substance of its first nine sections.

(*a*) The Bank of England was divided into two departments, namely, the Issue Department and the Banking Department. Securities to the amount of £14,000,000 were transferred to the former department, against which sum notes were to be issued and transferred to the Banking Department. The coin and bullion not required for immediate use was to be held in the Issue Department, and any note issue in excess of £14,000,000 was to be secured by the deposit of gold (and silver) equal to the excess. The Issue Department deals only with the issue of notes, whilst the Banking Department deals with ordinary banking transactions. The silver bullion in the Issue Department was not to exceed a fourth part of the gold coin and bullion.[1]

(*b*) If any country bank should, after 1844, discontinue to issue notes, the Bank of England could be authorised by an Order in Council to increase the amount of the securities in the Issue Department to the extent of two-thirds of such lapsed issue, and to issue notes against that amount.

(*c*) After the passing of this Act, no banks were to issue notes except those which on 6th May, 1844, were doing so.

(*d*) If any banker should cease to issue notes, he would not be allowed to renew such issues.

(*e*) A statement showing the notes issued, the securities, and the amount of gold and silver in the Issue Department was to be published weekly in the *London Gazette*, in addition to the items comprised in the Banking Department, namely, Capital, Deposits, Cash in hand, etc.

(*f*) Every bank having the right to issue notes was to make a return to the Commissioners of Stamps showing the average amount of such issues for the twelve weeks preceding the 27th April, 1844, and after that date no bank would be allowed to exceed, on an average of four weeks, the amount of the average for twelve weeks. Should the monthly average exceed the amount as indicated above, the bank would forfeit a sum equal to the excess.

[1] No silver is now held in the Issue Department.

(*g*) No stamp duty was to be paid by the Bank of England on its notes, but it was to pay the sum of £180,000 per annum for exemption from stamp duty and for its various privileges.

(*h*) Any person could demand notes from the Issue Department in exchange for gold bullion at the price of £3 17s. 9d. per ounce.

Now let us further consider the above-mentioned main points of the Act of 1844.

It is not quite clear how Sir Robert Peel arrived at the amount of £14,000,000 as the basis of the Bank's issue of notes against securities. As the average issues since 1800 had not fallen below that sum, it was probably adopted as a minimum amount which the Bank could rely upon keeping in circulation. However, of that sum, £11,015,100 is the chief item, and it represents the debt due to the Bank by the Government. It is money lent from time to time to the State in return for the privileges of exclusive banking granted to the Bank. The first loan to the State was that of £1,200,000 in 1694, when the Bank was founded, and the last was made in 1833.

Now the sum of £14,000,000 being the amount of notes the Bank could issue against securities, is known as the "fiduciary issue." Notes issued beyond the above sum were to be represented by an equal amount of gold coin and bullion held on the assets side of the Issue Department. The "fiduciary issue" of £14,000,000 fixed by the Act of 1844 has been increased from time to time by reason of the Bank being permitted to increase its issue against securities to the extent of two-thirds of the lapsed issues of country banks, as explained in paragraph (*b*), and the "fiduciary issue" at the present time amounts to £18,450,000. Included in this, of course, is the debt due to the Bank by the Government, amounting to £11,015,100. If this debt was repaid by the Government, the privileges of the Bank would come to an end. The probability of such an event happening is exceedingly remote.

Reference has been made in paragraph (*b*) to the lapsed note issues of country banks, and this is a matter of particular interest, and deserves a little further consideration. It has been already noted that joint-stock banks were allowed to be established, first of all, in 1826, and these banks had a right of note issue provided they had no office in London, or within sixty-five miles of it. Then in 1833, another Act permitted the establishment of joint-stock

banks in London, provided they did not issue bank notes ; and it is to this period that the foundation of several of the great London banks belongs, namely, the London and Westminster, the London and County, London Joint Stock, and the Union Bank, all of which are still in existence, although, by a process of amalgamation some of the titles have been altered. By the Bank Charter Act, 1844, if two joint-stock banks amalgamate, and either of them has a note issue, and one of the banks has an office in London, or within sixty-five miles therefrom, the right to issue notes is gone. And the same thing happens if a joint-stock bank which has a note issue amalgamates with a private bank in London, or opens a branch there, or within sixty-five miles thereof. On the other hand, however, if there is an amalgamation of banks outside the radius, and either of them had a note issue, the amalgamation does not in any way affect this previously existing right. Again, by one of the sections of the Act, it was declared unlawful for any partnership consisting of not more than six persons to issue notes if the number of partners should be increased to a number beyond six. As a result of this provision, if two or more country banks amalgamated, and the total number of partners did not exceed six after the amalgamation, the right of note issue, if previously existing, continued, though, of course, it came to an end if there was an amalgamation either with a joint-stock bank or with other private banks so that the total of six was exceeded.

One of the main objects of the Bank Charter Act was undoubtedly the destruction of the power of the country banks to issue notes at all, the feeling being that an unrestricted note issue was bad for the country and tended to speculation beyond reasonable bounds. And there can be no doubt that an excessive supply of inconvertible paper money is an evil, as is shown by the economic state of certain countries which suffer from such a condition of affairs. And in this object of extinguishing the right of note issue the Act has been very successful, for at the present time the notes of local banks are insignificant in number and value. On the 16th September, 1915, for instance, the total value of Bank of England notes in circulation was over £34,000,000, and that of the country banks just over £100,000. The local note issue, it may be noticed, has become a matter of decreasing importance in England owing to the comparatively recent growth of the system of payment by cheque;

and our note circulation is much less than that of France and Germany, in which countries the cheque system has not developed to anything like the extent it has here. A further reason why bank notes are not used in this country on an increasing scale is the fact that the minimum denomination of Bank of England notes is £5. During the past seventy years or so, a change has taken place in banking, and the circulation of bank notes has, on the whole, declined; whilst, concurrently, the deposits of the banks have very greatly increased. The predominant element in banking now is deposits and not notes. Precluded by the above-mentioned Act of 1833 from issuing notes, the joint-stock banks centred their attention upon the development of deposit banking. The enormous growth of deposit banking has been the means of bringing the cheque system in this country to its present great extent. The custom of banking is well developed; and whereas, some sixty or seventy years ago, cheques for small sums were comparatively rare, a large number of small cheques are now drawn.

The action of the Issue Department is automatic. If gold is offered, the Bank must buy it, and issue notes in exchange. On the other hand, gold may be demanded from the Issue Department in exchange for notes tendered to it. Hence the automatic action; an increase of gold causes an increase in note issue, and *vice versâ*. The coinage of gold being gratuitous in this country, the holder of the metal may, if he pleases, deliver it direct to the Mint—if of sufficient amount—and it will be returned to him in due course in the form of coin at the rate of 1,869 sovereigns for every 480 ounces (troy weight) of standard gold, which is equivalent to a price of £3 17s. 10½d. per ounce. This is known as the Mint price of gold, and is 1½d. per ounce above the price paid by the Bank of England. It might at first sight appear to be more profitable for the holders of consignments of gold to take the metal to the Mint, and so obtain the higher price. As a matter of fact, however, consignments of gold are delivered to the Bank, as, if the metal was taken to the Mint, some time must elapse before the coin would be ready, and there would consequently be a loss of interest owing to the delay. When gold is taken to the Bank, payment is made therefor at once, at the price of £3 17s. 9d. per ounce.

The result is about the same, whether the bullion is taken to the Mint or delivered to the Bank; but as a matter of practice, private

persons do not take gold to the Mint. The gold coined at the Mint is received from the Bank, and there is thus a profit to the latter of 1½d. per ounce. Against this, however, must be reckoned the cost of sending bars to the Mint when it is desired to coin them.

The Weekly Return.

We have already stated that by the Act of 1844, the Bank of England was divided into two Departments (the Issue Department and the Banking Department) and further, that a statement of the figures relating to the two departments was to be published every week. The Bank Return is made up weekly to the close of business on Wednesday, and is published in the financial papers every Friday morning, following upon the weekly meeting of the Court of Directors held on Thursday mornings. The Bank Return, as we shall see later, has an important connection with the Money Market, and is carefully examined by persons interested in financial matters. The following is the Return for the week ending Wednesday, the 17th January, 1912—

ISSUE DEPARTMENT.

Notes Issued	£54,901,385	Government Debt. ..	£11,015,100
		Other Securities ..	7,434,900
		Gold coin and bullion ..	36,451,385
	£54,901,385		£54,901,385

BANKING DEPARTMENT.

Liabilities.	£	*Assets.*	£
Proprietors' Capital ..	14,553,000	Government Securities ..	15,270,184
Rest	3,467,422	Other Securities ..	31,665,009
Public deposits ..	16,983,685	Notes	26,857,345
Other deposits ..	39,607,897	Gold and silver coin ..	855,162
Seven-day and other bills	35,696		
	£74,647,700		£74,647,700

The Return which is passed by the directors at their meeting on Thursday, is at once exhibited at the Bank, and on Thursday afternoons many persons may be found examining it. In addition to being published in the Friday morning papers, it is published by some newspapers on the Thursday evening. It is now proposed to review the various items in the two departments.

Issue Department.

This department deals exclusively with the bank notes that are issued. It has been already pointed out that the amount of gold coin and bullion must represent the notes that are issued in excess of the amount of the Government debt and the securities deposited. The securities vary, as the Bank has a right, under the Bank Charter Act, to increase its circulation if there is a lapse on the part of a country bank to issue notes of its own.

It is not to be supposed for one moment that the total amount of notes shown in the Weekly Return are in active circulation in the country. The number is automatically fixed by Act of Parliament, and notes must be issued in return for gold and bullion transferred into the Issue Department. If reference, however, is made to the other department, namely, the Banking Department, it will be seen that there is an item—"Notes." These are the notes which are unemployed, but which are ready for use if required. If they are returned to the Issue Department, the corresponding amount in value of gold or bullion must be withdrawn from that department, and if there is a withdrawal of gold or bullion of the Issue Department, the notes of a corresponding value must be cancelled. The notes are, in fact, an addition to the currency of the country, and they are secured on the credit of the Government. An excess of the issue, except under very special circumstances, would result in a depreciation in their value.

The Banking Department.

In order to understand this division of the Weekly Return, an explanation must be given of the various items. The Proprietors' Capital is, in fact, the Capital of the Bank itself. It is the amount upon which the dividends of the Bank are paid. It has been stated more than once that the original capital was £1,200,000 stock, the sum which was originally lent to the Government in 1694. Since then this capital has been increased on various occasions. The last advance by way of loan to the Government was made in 1833, and the total indebtedness was then £14,553,000. The figure has remained unaltered since that time. This large amount of paid-up capital gives the Bank a remarkably strong position in the country, and commands a feeling of security. The capital is far in excess of that of many of the joint-stock banks.

The " Rest " is the reserve fund which is kept in hand by the Bank for the payment of dividends to the proprietors. In the balance sheets of most banks this would be given under two different headings, one representing the actual reserve fund, and the other the balance of the Profit and Loss Account. The practice of the Bank of England is to combine these two under one total. The " Rest " is never allowed to fall below £3,000,000, and as this may be looked upon as the amount of the true reserve fund, the excess over £3,000,000 shows the amount which is in reality available for dividends. A careful scrutiny of this total gives a certain indication of the probable dividend that will be paid by the Bank. It may be here stated that the Bank of England dividends are paid half-yearly, on the 5th April and the 5th October, so that this item becomes peculiarly interesting to many persons as these dates are gradually approached.

The next item, " Public Deposits," might lead to confusion, unless a close examination of the Return was made. Under this heading are included not the deposits of the general public but the national deposits, that is, moneys paid on account of the Exchequer, the Savings Bank, the Commissioner of National Debt, the Pay-master-General, etc. It is to be borne in mind that the Bank of England is the banking house of the nation, and consequently all national revenues are paid into it by the various collectors as soon as they are received. The amount which is held in hand under this heading fluctuates considerably, and this fact is well brought home at the end of each financial year, namely, the 5th April, when the balances are somewhat large. These fluctuations have a considerable influence upon the Money Market, and the rates of discount are to some extent governed by the accumulation of capital on Government account.

" Other Deposits " includes the moneys deposited with the Bank in any other manner than that which is stated in the preceding paragraph. The principal part is made up of the deposits of the various banks as well as those of ordinary customers. From an early time the other banks have found it advantageous to deposit their unemployed moneys with the Bank of England, the stability and the standing of that institution giving them a feeling of security beyond what anything else of the kind could. Then, again, bank notes of the Bank of England were and are legal tender, that is,

a person can always pay his debts in Bank of England notes if the amount is above £5, and his creditor must accept the same in liquidation if the notes are offered. And then there is the business of the Clearing House, explained in a previous chapter, which requires for its proper working that all the clearing banks should retain a balance at the Bank of England, in order that the daily differences may be settled. The Bank of England has often been called the " Bankers' Bank," and the name is really quite justified, seeing that the money reserve of the nation is in the vaults of the establishment. The amount which is held on account of the London banks is very large, and great fluctuations could not fail to have a most serious effect upon the Money Market. Formerly a return was made showing the amount of the bankers' balances. Thus, in 1876, it was nearly £12,000,000, and since that date there has been a very considerable increase. In 1896 it reached a total of nearly £50,000,000, and it will be noticed in the copy of the Return above that it is nearly £40,000,000.

The last entry on the liability side of the Return is " Seven day and other bills." The total amount under this heading has diminished very considerably in consequence of the great increase of banking facilities throughout the Kingdom. The bills represent the money paid into the Bank for bills which have been issued, especially bank post bills. These are bills which can be obtained at the Bank of England and at any of its branches, free of charge, for any sum of money between £10 and £1,000, payable to order, upon depositing the sum for which the bills are required. Such bills are payable seven days or sixty days after sight, and are not subject to days of grace. The seven-days' use of the money is accepted by the Bank as sufficient remuneration in the shape of interest for their part of the transaction.

It may be interesting to add a word or two as to the history of these bills. They originated about the middle of the eighteenth century, and were introduced in order to avoid the losses arising from the frequent robberies of the mails. When a post bill was issued, and it happened to be stolen whilst in the post, the owner was enabled to give notice of the robbery and so prevent payment of the same to some unauthorised person ; whereas if a payment was made by coin or bank notes it would often be quite impossible for the same to be recovered.

The following is the form of such a bill—

"BANK OF ENGLAND. POST BILL.

No.....

London, Sept. 1*st*, 19..

At seven days' sight I promise to pay this my Sole Bill of Exchange to Samuel Johnson, or order, one hundred pounds sterling, value received of Thomas Robinson.

For the Governor and Company
of the Bank of England.

A—— B——

£100."

We will now turn to the assets side of the Banking Department, and consider the various headings comprised therein; though as a preliminary it should be noticed that gold and silver coin figure at the bottom of the balance sheet instead of at the top. This is somewhat different from the balance statements of other banks, because specie is the highest form of reserve. With the Bank of England it is different.

"Government Securities" is the item which takes the first place, followed by "Other Securities." The former include Consols, Exchequer Bonds, Treasury Bills, etc., the income in respect of which is guaranteed by the Government. At the quarterly periods when the dividends as well as other payments are due, the Government often has insufficient funds to make these payments. The amount required will be borrowed from the Bank, the Government giving as security what are termed "Deficiency Bills." At the above-named quarterly periods, therefore, we shall often notice an increase in the total of Government Securities, due to the borrowing from the Bank. As regards the March quarter, however, the Government will not require to borrow on "Deficiency Bills," as, owing to the collection of Income Tax and other taxes, ample funds are in hand. The "Deficiency Bills" are duly paid off as the various revenues are collected and credited to the Government account.

"Other Securities" include the Bank's investments in India Stocks, Colonial Government Stocks, Corporation Stocks, Railway Debentures, etc.; also bills discounted, and amounts due from bill brokers and the Bank's ordinary customers in respect of loans against security. Now when loans are difficult to obtain in the

Money Market, borrowers go to the Bank for accommodation. When the item " Other Securities " increases substantially, it shows that rates for the loan of money in the " outside market " (*i.e.*, the banks other than the Bank of England) will very probably remain high for a short time. A decrease in the total of " Other Securities " shows that loans have been repaid to the Bank, and that there is not so much pressure on the " outside market." There is another instance in which the total of " Other Securities " will increase substantially. The consideration of this circumstance will, however, be explained in a later chapter dealing with the Money Market.

The other items, " Notes " and " Gold and Silver Coin," almost explain themselves. The notes are those issued for the Issue Department of the Bank, but unemployed, and they are represented by securities or gold coin and bullion under the Act of 1844. The amount of gold and silver coin kept in the Banking Department is comparatively small, but as gold can always be obtained from the Issue Department by sending bank notes for cancellation, no difficulty can arise in this respect.

Although the Bank of England is not a State Bank, it is nevertheless bound by the Bank Charter Act of 1844 to publish a statement each week showing the Liabilities and Assets of the Banking and Issue Departments. This is, of course, quite reasonable, seeing that the Bank has charge of very large sums of public money. No other bank in this country is required to publish a weekly statement of Assets and Liabilities.

When the Bank of England was originally founded, it enjoyed " exclusive privileges of banking," for its stockholders had the advantages of limited liability, and it had no competition to face. Although the Bank has the monopoly of note issue in England, it has no *banking* monopoly. The Banking Department transacts ordinary business in the same way as other banks, and its operations are not under Government control. The enormous growth of joint-stock banks during the past few years, has resulted in the creation of institutions whose operations overshadow those of the Bank of England in magnitude. Although the Bank has no monopoly, it has a certain amount of advantage over the other banks, inasmuch as it keeps the various accounts of the Government. These accounts are ideal ones from a banker's point of view.

From the statement of Assets and Liabilities of the Banking Department, it will be noted that the Bank does not disclose the value of its premises, and in this respect its procedure differs from that of other banks.

It will be observed from the wording employed in the Banking Department, that the term " securities " is used in a much wider sense than usual.

The Bank of England and Bankers' Reserves.

It has sometimes been suggested that the clearing bankers, instead of placing their surplus funds with the Bank of England (on which, by the way, no interest is paid), should themselves take charge of their reserves. If this were done, the clearing banks would secure the profit which at present is obtained by the Bank of England. The bankers, however, have a very good reason for permitting matters to remain as they are. The Government balances are kept at the Bank of England, and if, for any reason the position of the Bank should be imperilled, the other bankers believe—and past experience supports their view—that the Government must step in and save the Bank, which is the pivot of our banking system and the foundation upon which our national credit rests. By allowing the Bank the use of their surplus funds during ordinary times, there exists an implied undertaking on the part of the Bank to assist the other banks during occasions of grave financial crisis. If, however, the other banks kept their own surplus funds, there does not appear to be any particular reason why the Government or the Bank of England should render assistance at a time of financial crisis. Past experience of the attitude adopted by the Bank towards the other banks during financial crises, has rendered it apparent to the latter that the present arrangement is one which must be for their ultimate protection.

Suspensions of the Bank Charter Act.

The Bank of England has been in difficulties on three occasions since the passing of the Bank Charter Act of 1844, namely, in 1847, 1857, and 1866. In each of those three years a financial crisis occurred, and much pressure was placed upon the Bank.

Now we know that in accordance with the Bank Charter Act of 1844, the Bank could issue notes to the extent of £14,000,000 against

securities (*i.e.*, the " fiduciary issue "), and all notes issued beyond that sum were to be secured by the deposit of gold and silver (the latter is not held in the Issue Department now) to an amount equal to the excess. We have seen that gold withdrawals reduce the Reserve in the Banking Department as well as the gold in the Issue Department. Unfortunately, the above-mentioned crises occurred when the Reserve had been allowed to reach a low level, and the extra strain caused so heavy a reduction in the Reserve, that the Bank found it necessary to place the position before Government and ask for its help. On each of the three occasions above referred to, permission was given by the Government for the Bank to increase its issue of notes against securities *beyond* the limit as defined by the Act of 1844. It will be remembered that the " fiduciary issue " was fixed in the first place at £14,000,000, to which could be added from time to time, two-thirds of the lapsed issues of other banks.

Although permission was obtained in 1847, 1857, and 1866, to increase the issue of notes against securities beyond the limits as prescribed by law, the privilege was actually exercised on one occasion only—in 1857. In 1847 and 1866, the knowledge that the Government had intervened and that as many notes as might be required could be issued by the Bank had the effect of checking the panic ; and it was not found necessary to issue notes in excess of the limits as defined by law. On each of the three occasions already referred to, the letter sent to the Bank on behalf of the Government authorising the suspension of the Bank Charter Act contained a notification to the effect that if the Directors of the Bank found that, in order to meet the demands for advances and discounts upon approved securities, it became necessary to exceed the issue of notes as prescribed by the Act of 1844, the Government would indemnify the Bank in respect of any excess issue.

In 1857, then, the Directors of the Bank found it necessary to avail themselves of the permission granted on behalf of the Government (by the Chancellor of the Exchequer and the First Lord of the Treasury of that day) to extend the note issue beyond the legal limits. The excess issue amounted to £2,000,000, and the Bank accordingly transferred that sum from " Government Securities " in the Banking Department to " Other Securities " in the Issue Department. The " fiduciary issue " being thus, in effect, increased

by £2,000,000, notes were accordingly issued to that amount and transferred to the Reserve in the Banking Department. As was the case in the crises of 1847 and 1866, the knowledge that the Government had intervened was the means of restoring confidence, and the panic soon subsided.

Shortly after the outbreak of war in August, 1914, the Currency and Bank Notes Act was passed, Section 3 of which gives the power of suspending the Bank Act, 1844. The section referred to enacts that not only the Bank of England, but any Scottish or Irish bank of issue, may, as far as temporarily authorised by the Treasury and subject to the conditions attached to that authority, issue notes in excess of any limit fixed by law. At the time of writing, it has not been necessary to exercise this power.

It has sometimes been suggested that the Bank of England should be granted the power to increase its note issue against securities in times of financial pressure (without any Government intervention), in a similar manner to that by which the Imperial Bank of Germany increases its note issue. The German system of note issue was modelled on our own, and is similar in several respects. Existing banks were allowed to continue their issues under certain conditions, and the Imperial Bank was granted the right to increase its " fiduciary issue " by the whole amount of lapsed issues of other banks. There is, however, one important difference between the two systems, namely, that the Imperial Bank of Germany can issue notes beyond its " fiduciary issue " by payment of a tax of 5 per cent. on the amount of the excess. There must, however, be a gold reserve at all times amounting to not less than one-third of the total notes in circulation. This " elastic limit clause," as it is termed, has been acted upon by the Imperial Bank to an appreciable extent during the past few years. It has been suggested that it would be desirable for the Bank of England to have facilities for increasing its issue by an " elastic limit clause," instead of having to appeal to the Government to suspend the Bank Charter Act. Although the Act has not been suspended since 1866, it is nevertheless felt in some quarters, that, by allowing the Bank of England to increase its issue in a similar manner to the Imperial Bank of Germany, it would be possible for the Bank—in times of financial crisis—to act with promptitude and energy which would go a long way towards calming any serious financial situation.

The Bank Rate.

This is the minimum rate charged by the Bank of England for discounting bills. The rate is often spoken of as the " official minimum," and money rates throughout the country are regulated by it, as we shall see in a later chapter dealing with the Money Market.

The Bank Rate is fixed by the Directors at their weekly meeting on Thursdays (when the Return is also examined and passed), but during times of emergency, as for instance during the recent American crisis, alterations are made on other days. The object of raising the Bank Rate is to maintain the Reserve of the Bank at a safe level. If the Reserve is low and gold is being withdrawn for shipment abroad, it is fairly certain that the Bank Rate will be raised. On the other hand, if the Reserve is at a high figure and gold continues to arrive at the Bank in considerable quantities, it may be taken for granted that the Bank Rate will be lowered The Reserve may not only be called upon for gold for internal purposes, but it is liable to be drawn upon to satisfy foreign demands. London is a " free market for gold," and no obstacles are placed in the way of the export of the metal beyond the legitimate procedure of raising the Bank Rate. The stock of gold held by the Bank of England is very convenient of access, and is consequently drawn upon to a considerable extent from abroad ; the procedure of the foreigner being to buy bills on London, send them here to be discounted, and obtain the proceeds in bank notes which are exchanged for gold at the Issue Department. The Bank of France and the Imperial Bank of Germany (especially the former) have both accumulated large gold reserves, but neither of them is a free market for gold. The Bank of France will—if a withdrawal is an inconvenient one —place a premium upon the metal.

We have already seen that an export of gold will lessen the Reserve, and so reduce the ability of the Bank to discharge its liabilities to the public. Consequently, when the Reserve is appreciably depleted, the Bank Rate will be raised, the effect being that in London the value of money will be increased for the time being. The prospect of additional profit will bring about an import of gold from other financial centres, where the value of money is less.

The bullion transactions at the Bank are on a large scale, and the Issue Department holds a good supply of foreign gold coin which is

frequently used for export. The changes of the Bank Rate, then, depend upon the influx or efflux of gold. Of course, the movements of gold for internal currency purposes (as, for instance, in connection with the Scotch banks in May and November) are anticipated and can be prepared for accordingly. If the internal currency requirements were the only considerations to be kept in view, the Bank Rate would rarely change. It is the foreign withdrawals already referred to that have an important bearing on the course of the Bank Rate. Every afternoon, the Bank issues a statement showing the amount of coin and bullion that has been received from or sent abroad. The money articles of the important newspapers record these daily movements. On Thursdays (the Bank's week ending at close of business on Wednesday) the money article will give a statement of the amounts received or withdrawn during the week, thus showing the net influx or efflux as the case may be, *e.g.*—

"Since the issue of the Bank Return the bullion movements reported have been" —

Arrivals.		£	*Withdrawals.*		£
Thur.	Bars.	77,000	Fri.	South Africa ..	10,000
,,	Turkey	100,000	Mon.	Buenos Ayres ..	100,000
Fri.	Bars.	183,000	Tues.	Egypt	250,000
Sat.	Bars.	20,000	Wed.	Straits (set aside)	60,000
Mon.	Bars.	248,000		Net influx ..	843,000
,,	Turkey ..	230,000			
Tues.	Bars.	120,000			
Wed.	Bars.	285,000			
		£1,263,000			£1,263,000

There are several points still remaining to be discussed with regard to the Bank Rate, but they will no doubt be the better appreciated when treated in connection with the chapter on the Money Market.

CHAPTER XI

THE MONEY MARKET

Introductory Remarks.

THE name Money Market is that which is given to the great organisation for the loan of capital ; though its meaning has been somewhat extended so as to describe in a general way the operations of certain individuals who are seeking the means by which capital can be utilised, either by borrowing or by lending money. In speaking of markets generally it is possible to assign to them a particular position, when they are connected with the London Stock Exchange. For instance, there is the Consol Market, the American Market, the Home Railway Market, the Mining Market, and so on. Dealings in securities connected with each of the above are carried out at fixed spots in the " House," as the Stock Exchange is often called. But when one speaks of the Money Market it has no fixed locality. It most certainly has its centre in the Bank of England, but it extends from the Bank through Lombard Street, and includes those streets in the vicinity of the Bank where are situated the offices of the most important banks, discount houses, and the places of business of the bill brokers.

The Bank of England itself is most intimately connected with the Money Market, though it is not generally spoken of as being a part of it. The reason for this is that the Bank holds the gold reserve of the country. Moreover, the Bank has, in addition, large resources at its command, and ultimately there is the Government of the country at its back. Again, in addition to the stock of gold which it has on its own account, that is, the gold which come to it in its own way of business, the Bank also is the holder, to a large extent, of the reserves of the other London banks. Only a few banks retain more gold in their possession than is required for their ordinary daily transactions. The other part is deposited with the Bank of England, where it is always available for withdrawal upon the shortest notice. Lastly, the Bank is compelled by its charter to purchase gold offered to it at a fixed price. Being thus the great recipient of gold, its position is such that it must exercise the greatest possible control where large financial transactions are concerned.

Business of the Market.

In the Money Market money is dealt in. By the term "money" is meant loanable capital or loans. Money is dealt in just as various kinds of produce are dealt in at the different London markets specially set apart for that purpose. The price of money, that is, the rate of interest to be paid for the loan of it, depends upon the relative volume of supply and demand, in a similar manner to the price of any other commodity.

The deposits of our great banks at the present time amount to huge sums—in some cases to nearly twenty times the paid-up capital. On current account balances no interest is paid. On deposit accounts, as has been explained elsewhere, the rate of interest is comparatively small. Although, as just stated, the majority of banks make large deposits with the Bank of England, such being required, amongst other things, for the purposes of the Clearing House collections, the amount of money which is retained by them is always more than sufficient to meet the average demands of their customers. If the money lies idle in the coffers of the bank it naturally earns no interest. If it is made use of in such a manner that it can be recalled at short notice, it is almost as good as though it was actually in hand, and at the same time it is being profitably employed. This money is the fund which is dealt with in the Money Market, and it is often spoken of as "money at call," or "money at short notice." It is obvious that every bank is in a position to contribute some portion to this fund in a general way, and consequently the amount which is thus available for short loans reaches to an enormous total.

The English banks, then, are the principal sources of the fund which is dealt with in the Money Market. They are the main factors so far as supply is concerned. But they are not the only ones. Foreign banks find that the London Money Market is a profitable place for dealing, and consequently there is always a large amount of foreign capital available for loans. Although there are other sources which might be considered, they are of insignificant importance compared with the two great supplies just noticed.

Let us, first of all, consider the demand for this loanable capital which is so adequately supplied. This demand proceeds from

various quarters. The principal arises from the bill brokers and the members of the Stock Exchange who carry on their businesses mainly by means of loans obtained from the Money Market. As to the loans to the latter, these have been already dealt with in a previous chapter. No further reference, therefore, to their part in the business of the Money Market is at present necessary. But it is essential to examine in some detail the peculiar position occupied by the bill brokers. Much of the business of the country is carried on by a system of credit, and bills of exchange are utilised for the payment of debts. These are trade bills, and it must be obvious that the number of them actually in existence must be enormous. Now it is not always convenient for the trader to whom a bill is made payable to wait for his money until the bill matures. He wants cash at once. He therefore sells or discounts the bill. There are many banks which do the business of bill discounting, and it is quite the custom for foreign banks to keep this branch of business as their monopoly in their own countries. But this is not so in England. There has sprung up in London a body of middlemen who act as intermediaries between the holders of bills and the banks. These are the bill brokers. These bill brokers buy up as many bills as they can afford to do, and generally at a lower rate than that charged by the Bank of England; but their own capital is quite inadequate to deal with the large number of bills which are always on sale. They are compelled, therefore, to apply to the banks for accommodation, and this accommodation is granted by means of short loans, some of the loans being for exceedingly short periods.

The bills, then, which are held by the banks in England are more frequently obtained in an indirect rather than in a direct manner, and all the best bills are secured in this way. It may not appear quite clear, at first sight, why a banker should obtain bills through the medium of a bill broker, seeing that it is one of the functions of a banker to discount the bills of his customers. The fact is, however, that the business of bill-discounting requires much knowledge of a very peculiar kind. The bill brokers buy from the merchants and traders and sell to the bankers. The former are in possession—as the result of a long experience—of a good knowledge of the financial standing of very large numbers of commercial houses which offer bills for discount to the Money Market. The

bankers have no time, on the other hand, to undertake bill discounting by dealing with the holders direct, as the bill brokers do. Their attention is absorbed by the requirements of their customers, and they find it peculiarly advantageous to deal with the bill brokers in this manner, all the necessary trouble of acquiring information having been taken by the latter before the bills are handed over to them.

Main Influences.

It must be obvious on the slightest consideration, since dealing in the Money Market is very similar to dealing in any other Market, that supply and demand rule here as elsewhere. The main consideration, then, is the actual amount of capital which is available for loans. Money is lent out at interest, the amount of the interest being the price paid for the use of it. And the price paid for the use of it is naturally dependent upon the supply and demand. When there is an abundance of capital available, loans are granted at a low rate of interest. On the other hand, when there is a scarcity of capital, the rate of interest is raised. In point of fact, the rate of interest is always an accurate indication of the ample supply or of the scarcity of money.

Credit.

The state of public credit has always a powerful influence upon the Money Market. Large amounts of capital are deposited with the various banks, and it is essential for the smooth working of financial matters that a feeling of general security should prevail. Any alarm cannot fail to have a most prejudicial effect. Customers are afraid as to their deposits, many rush to the banks to withdraw their money, and the amount of available capital is rapidly diminished. A sudden movement of this kind is immediately reflected upon prices, and the feeling of insecurity extends in every direction.

Our methods of trade are almost exclusively based upon the credit system. The acceptance of a bill or a cheque indicates the complete faith of the receiver in the stability of the giver. And this feeling is the cause of so many negotiable instruments being in existence. If all transactions had to be carried out in hard cash, the effect would be quickly noticeable in a depletion of the funds held

by the banks, and the Money Market, as it is known to-day would quickly cease to exist.

Gold Movement.

A most important factor that requires very careful consideration in connection with the Money Market is the actual amount of money which is held in the country, and since the standard of England is a gold one, that means that much depends upon the actual amount of gold which is really available upon demand, and which can be utilised for the liquidation of great liabilities. It must be remembered that our system of finance is almost entirely built up on credit, and that the gold basis upon which it has to rely is a remarkably small one. And yet, of course, this gold supply is what must be looked to as the ultimate base of settlement. The sudden diminution of gold, therefore, by any large movement in any direction must have a most serious effect upon the Money Market. There is, as has been pointed out before, practically but one large stock of gold in existence in this country, and that is held by the Bank of England. If there should by any chance be a drain upon this reserve, no matter for what purpose, whether it happens to be by reason of coinage requirements, or the payment of debts to another country, or for anything else, the reserve which can be drawn upon for the Money Market is restricted, and the rate of interest goes up at once. Still the effect of a considerable gold movement may not be so serious as it otherwise might be if the state of public credit is not affected at the same time. Indeed, if credit is satisfactory, a fluctuation of this kind rights itself with extraordinary rapidity. It is a perfectly natural thing that unless credit is in some way seriously impaired, available capital will be at once attracted by the offer of a high rate of interest. If, then, there happens to be a sudden movement of gold threatened, the rate of interest is at once raised, and this effectually checks the rapid depletion that would otherwise occur. As the holder of the gold reserve of the country, it is the duty and the business of the Bank of England to keep a most careful eye upon the gold reserve and to anticipate any threatened movements by raising or lowering its rate so as to meet the requirements of the moment. By prompt and careful action, so long, of course, as the state of the public credit is maintained, as before mentioned, the Bank can quite easily adjust matters.

Public Loans.

The Money Market is always affected when there is a large subscription for a public loan. At such times the banks are denuded of capital, and then the Bank of England is the last resource of those who deal in the market. Thus, when the last issue of Consols on a large scale was made by the Government during the Boer War, this condition of things was particularly exemplified, and the bill brokers were compelled to apply to the Bank of England to supply the deficiency created. The effect was at once perceptible. The great anxiety is always to borrow money as cheaply as possible, for this is a prime necessity for those classes of the community who exist on credit and have to deal, in part, with borrowed capital. So long as money is plentiful in the Money Market, the rate of discount is low, but when there arises a stringency, and the Bank of England has to be resorted to, this institution, carefully keeping its eye upon the reserve which it must maintain, has to raise its rate of discount, and therefore transactions are limited. In point of fact, every effort is made by the bill brokers to avoid borrowing from the Bank of England itself, because its loans are only granted for a fixed period, and the charge for the accommodation, as just stated, is higher. Again, it is not desirable to borrow money for a long period since daily fluctuations in the rate of interest are considerable ; and as transactions are based upon very fine quotations, the profits would suffer considerably if large amounts had to be borrowed at high rates. This really explains the reason why the bill brokers, when necessary, take the bills which they have discounted by means of their own capital to the various banks, and get them to re-discount the same at the market rate, which is always lower than that of the Bank of England. Thus the risk of having to borrow at a comparatively high rate from the Bank is avoided.

Concentration of Capital.

Another great factor in connection with the amount of loanable capital in the Money Market is the concentration of capital in various centres of the world. Although London is the great financial headquarters, yet it must not be lost sight of that there are markets of great importance in other great cities, especially Paris, Berlin, and New York. At each of such places there are large deposits

retained by the various banking houses. If there are causes which have the effect of concentrating a large amount of capital in one particular centre, this is felt in every other quarter. Capital, like any other commodity, gravitates towards the most profitable market. If the rates of interest are low in London when they are high elsewhere, then capital leaves this country, and the Money Market is more or less depleted. If, on the other hand, the interest is higher in London than elsewhere, then money or capital is sent here for the purposes of investment.

Such movements to and from a country are reflected in the foreign exchanges, which must always be carefully considered in order to understand the different forces that are at work. Again, the Stock Exchanges throughout the world are important factors because there are what is known as "inter-Bourse" securities, *i.e.*, securities which are saleable not only in London, but also in Paris, Berlin, or New York. In order to pay for losses, say, in Paris, securities are sold in London for the Paris account, which practically means that capital is transferred to France. This movement naturally reduces England's stock of money and causes a rise in the rate of interest.

Formation of Trusts.

The formation of trusts in America has, in recent times, had an enormous effect upon the Money Market. These trusts have been established on a gigantic scale, and the call for capital to carry on their operations has been very great. The tempting offers of high rates of interest have had their usual consequence—they have attracted capital from all possible sources. A drain of this kind cannot fail to have the usual effect, namely, to reduce the amount of loanable capital available for the Money Market, and to render money scarcer.

Trade Conditions.

Still, after all, it is perhaps the condition of trade which exercises the most important influence upon the Money Market, that is, as far as the demand for money is concerned. When trade is active there is an increased demand for capital in order that advantage may be taken of the rise in prices. Money is wanted and it must be borrowed. This demand is at once reflected in the Money Market by a rise in the rate of interest. On the other hand, when

trade is depressed, there is a less inquiry for loans and the rate of interest declines.

The money articles of the daily papers usually contain some references to the principal industries of the country; wheat, cotton, steel, iron, and copper may be taken as practical illustrations, and their condition in relation to capital has an important effect. The state of agriculture, which is still one of the greatest of the industries of the country, can never be neglected, and when it is depressed the deposits of the banks in agricultural districts are diminished. The demand which is made upon the Bank of England annually in the autumn season is largely due to agriculture, because with the ingathering of the harvest a larger amount of money is required to pay for labour.

Speculation in various commodities is likewise found to react upon the Money Market, because without capital it is an impossibility to maintain prices, so that banks in some degree become responsible for the rise and fall in the price of commodities.

An illustration of this influence was given a few years ago when a ring was formed for the purpose of getting control of the copper production. For some time a great inflation of prices took place, but subsequently it was found impossible to absorb the world's supply, and then there was a sudden reaction. Many French banking houses had to suspend payment in consequence of the great fall in the price of the commodity, and the collapse had very considerable effects upon the Money Market of this country. In order to meet the losses on the continent there was a sale of securities in this country on French account to pay for the liabilities incurred.

The steel and iron industries are intimately associated with the prosperity of this country, and a depression in these trades affects banks, the profits of which are dependent upon the loan of capital. If these industries do not require the capital, there is a large surplus in the Money Market, and in consequence the rate of interest gradually declines. When trade revives more capital is required, and with the increased demand for capital there is a gradual increase in the value of money.

Politics.

The political condition of the country can never be neglected as an important factor in estimating the position of the Money

Market, and recent experiences have tended to emphasise this more than ever. A period of tranquillity is always to be desired by those who have the control of the Money Market, because peace obviously means an absence of violent fluctuations. The last war in South Africa was a practical illustration of a period of high rates and a depreciation in the value of securities. An expenditure which ran into more than two hundred and fifty millions of money naturally involved a depression in trade. Again, the war between Russia and Japan had a considerable effect upon the state of the Money Market, because there was a sudden fall in prices, especially in the securities of these two countries ; while, on the outbreak of the Great European War in 1914, the Money Market was, for a time, in a chaotic condition. In the same way a change of Government has a tendency to produce an uneasy effect, because there is a feeling of uncertainty in the air as to the future policy which will be adopted by the new Government which has come into office.

Public Finance.

The state of public finance cannot be neglected, since the amount of the surplus or of the deficit at the end of each financial year has to be adjusted All payments on account of Income Tax are made before the 5th April of each year, so that in the early part of the year there is a stringency caused by the absorption of capital. Money is transmitted from the various banks to the Bank of England, and that institution becomes a lender of capital, unless the money is required by the Government for other purposes.

In order to meet temporary requirements the Government issues Treasury Bills, and the rate at which they are allotted gives one some idea as to the value of money for a certain period. For example, if six months' bills for £1,000,000 are allotted at £98 10s. this means that the market expects a low average rate of 3 per cent. for a period of six months. Such bills are rendered necessary since there are payments to be made at various seasons of the year when the Exchequer receives very little money. Securities of this kind are a favourite investment for continental banks, and it is sometimes found that bills have changed hands at £2 10s. per cent., the allottee at £98 10s. having possibly sold his allotment for £98 15s.

The payment for the same must of necessity withdraw a certain portion of the floating capital of the country, and so affect the rate of interest.

India Council Money.

A more lengthy reference must be made to India Council Money, partly to explain it in some detail, and also because the India Council does exercise a very considerable influence upon the money market. Sometimes it lends money to the market, and at other times it calls the loans in. The India Council collects its revenues in the form of rupees, but a considerable portion of its expenditure (as, for instance, the interest on its debt) is paid in English money in this country. When the Council is accumulating the revenue it receives in India to pay the interest on its debt here, it is often in possession of considerable funds which it is able to lend.

Now we have seen that, whilst the India Council is accumulating rupees in India, it has a considerable volume of expenditure to provide for in this country. There are many merchants here, who import large quantities of Indian produce, as, for instance, jute and tea. Consequently, on the one hand we have merchants here who desire to make payments in rupees, and on the other, the India Council is desirous of converting its rupees in India into English money here. An arrangement exists which is of convenience to all parties ; namely, the India Council offers weekly remittances on India in exchange for English money. In other words, the India Council sells its rupees in India to merchants here, and thus both parties find the arrangement a very convenient one. Every Thursday, in the money market paragraph of our newspapers, India Council Remittances, as they are termed, are referred to in a manner which is quite unintelligible to the uninitiated, *e.g.*—

"At the Bank of England tenders were invited for Council remittances on India for Rs. 1,00,00,000, when the whole amount was allotted as follows : Bills, Rs. 12,84,000 on Calcutta, Rs. 3,07,000 on Bombay, and Rs. 3,46,000 on Madras ; transfers, Rs. 36,38,000 on Calcutta, Rs. 28,04,000 on Bombay, and Rs. 16,21,000 on Madras. Tenders for bills at 1s. $4\frac{3}{32}$d. per rupee and for transfers at 1s. $4\frac{1}{8}$d. per rupee will receive about 10 per cent. The amount

to be offered on Wednesday next will be Rs. 1,00,00,000. The sum realised by the sale of bills and telegraphic transfers from 1st April, 1911, to 20th February, 1912, was £23,194,513."

We see that the India Council had Rs. 1,00,00,000 for disposal in London, but we are not informed in this instance of the total amount applied for by the merchants. Sometimes the amount tendered for is much greater than that offered.

The amount, we are told, was allotted by the India Council as under—

In Bills	Rs. 12,84,000	on Calcutta.
	Rs. 3,07,000	on Bombay.
	Rs. 3,46,000	on Madras.
In Transfers	Rs. 36,38,000	on Calcutta.
	Rs. 28,04,000	on Bombay.
	Rs. 16,21,000	on Madras.
	1,00,00,000	

From the above figures we can see that some merchants desired to pay accounts in Calcutta, and others in Bombay and Madras respectively. A portion of the remittances was allotted in bills, and a portion in transfers (*i.e.*, telegraphic transfers). Therefore, some merchants merely sent bills by post, but others cabled the remittance. In this latter instance, the equivalent of the amount paid in London, is cabled in rupees to Calcutta, Bombay, or Madras as the case may be, to the credit of the particular person concerned.

Banks, of course, conduct a considerable volume of telegraphic transfer business, and this mode of settling accounts has been utilised to an increasing extent during the past few years. Let us take a simple example of a telegraphic transfer. Suppose a person desires to cable say, £1,000 to a certain firm in Sydney, New South Wales. He will pay the sum to one of the Australian banks in London having a branch in Sydney. The London branch will cable to its Sydney branch to advise and pay the required sum to the firm named. The Australian bank in London will use its own private code for the purpose (the Sydney branch, of course, having a copy of such code) and the person in London who is telegraphing the money will be required to pay the cost of the cable. It may be noted that the London branches of the Australian banks will not accept responsibility for any miscarriage, delay or error in respect

of telegraphic transfers. The foregoing is a simple example of a telegraphic transfer outward. Of course, on the other hand, there are telegraphic transfers sent from different parts of the world to the various colonial and foreign banks here.

We are informed that, "Tenders for bills at 1/4$\frac{3}{32}$d. per rupee and for transfers at 1/4$\frac{1}{8}$d. per rupee will receive about 10 per cent." Thus the merchants who tendered at the above rates did not obtain all they applied for, and it sometimes happens that the India Council will not accept the prices offered, when they are not in particular need of English money here. Then, again, the merchants sometimes do not apply for the full amount on offer. In some newspapers the average prices are shown at which allotments are made of bills and telegraphic transfers respectively; but in the instance we are discussing, that information is not given. The tendering for India Council Remittances usually takes place on Wednesdays, but what are known as "special allotments" are made at other times. The paragraph under discussion informs us that Rs. 1,00,00,000 will be offered the next week, and that the amount produced by the sale of bills, and telegraphic transfers from 1st April, 1911 (the commencement of the financial year), was £23,194,513. These figures are an index of the rate at which the Secretary of State for India is obtaining English money to pay the interest on Indian loans here. Consequently, merchants are able to make an estimate as to what quantity of rupees the India Council still has to offer, and the prices tendered may therefore be varied accordingly.

It often happens that merchants, not having tendered high enough to secure remittances which they particularly require, make a higher tender subsequently, and secure the allotment they desire. This fact is duly recorded in our financial newspapers.

The method of stating rupees appears at first sight to be somewhat peculiar. A "lakh" is one hundred thousand rupees; and whilst say, two million rupees might be denoted as 2,000,000, it is the usual custom to write the amount as 20,00,000 so that the number of lakhs may be shown.

Résumé.

All the influences that have been noticed in order do have a marked effect upon the Money Market. But after all, the decisive

influence is that which is exercised by the export or import of gold—in other words, the depletion or the increase of the Bank Reserve, as the case may be. If money market rates abroad are higher than they are in London, gold will flow to the spot where it can be most profitably employed. Conversely, the raising of the Bank Rate, which has the effect of increasing the rate of interest charged for loans and so rendering loanable capital capable of more profitable employment here has the effect of replenishing the Reserve of the Bank of England, as has been already sufficiently pointed out.

Settling Rates.

One of the principal parts of the business of the bill brokers is that of keeping an eye upon all the influences which affect the Money Market, and then of settling the rates at which they are able to carry on their particular work at a profit. They are generally in a position to know the total amount of the floating capital which is loanable, and the movements of the same are the causes which fix the rates to be charged. It is the bill brokers themselves who fix these rates. If a daily paper is carefully examined, there will perhaps be found in that portion of it which is devoted to financial affairs a quotation of rates something like the following, though it must be clearly borne in mind that the rates are subject to constant fluctuations—

Market Discounts.	Per cent.
60 days Bills	$2\frac{13}{16}$
3 ms. Bank Bills ..	$2\frac{13}{16}$ $2\frac{7}{8}$
4 ,, ,, ,, ..	$2\frac{7}{8}$
6 ,, ,, ,, ..	$2\frac{15}{16}$ 3
3 ,, Fine Trade Bills	$3\frac{1}{4}$ $3\frac{1}{2}$
4 ,, ,, ,, ,, ..	$3\frac{1}{4}$ $3\frac{1}{2}$
6 ,, ,, ,, ,, ..	$3\frac{1}{4}$ $3\frac{1}{2}$

Bank and Money Rate.	Per cent
Bank Rate	4
Bank of England Loans..	$4\frac{1}{2}$
Bankers' Deposit Rate ..	$2\frac{1}{2}$
Brokers' Dept. Rate, Call	$2\frac{1}{2}$
Brokers' Dept. Rate, Notice	$2\frac{3}{4}$
7 day Market Loans ..	$2\frac{1}{4}$ $2\frac{1}{2}$
Day to Day Money ..	2 $2\frac{1}{4}$

It is necessary to explain the various rates mentioned in the above statement, which are the rates prevailing in the market.

The Bank Rate is the rate fixed for discounting bills of exchange by the Bank of England itself, although it will be remembered that the Bank, in the ordinary course, does less of this business than the other banks, and the bill brokers avoid it as much as possible. The rate is settled weekly by the Directors at their meeting, and is

communicated to the outside world as quickly as possible. The rate depends in the main upon the reserve in hand, since the Bank must see that its supplies are not too heavily drawn upon.

The Bank Rate naturally affects all other rates, and the latter vary, going up and down, as the former rises or falls. The Market Rate of Discount is the price which is charged for discounting bills of exchange by the bill brokers and the various banks other than the Bank of England. If the rates given above are carefully studied, it will be noticed that the difference is very small between the various classes of bills, and this difference represents the degree of risk attached to discounting such documents. Bank bills are bills of exchange drawn or accepted by banks which will be paid without doubt at maturity, but there is an element of uncertainty—though generally a very slight one—with regard to fine trade bills, and that is the reason why a higher rate of interest is charged for them.

The Bank of England Loan Rate is the rate of interest which is charged by the Bank for advances made by them. This is invariably higher than the Bank Rate, and this price charged for loans is one of the main reasons why the bill brokers, as already stated, are always most anxious to avoid applying to the Bank for accommodation.

Bankers' Deposit Rate is the rate of interest paid by bankers for money left on deposit account. In London it varies with the Bank Rate, the general rule being that it is $1\frac{1}{2}$ per cent. below, with a minimum of 1 per cent. and a maximum of 4 per cent. This payment of interest on deposit refers to banks other than the Bank of England, which pays no interest at all upon deposits.

Brokers' Deposit Rate is the interest paid on deposits placed with the bill brokers by private individuals, the attraction being in some cases a slightly higher rate than that allowed by the ordinary banks. If the money is deposited on call, that is, if it is repayable on demand, the rate is often the same as the bank rates, whilst if the money is only repayable upon notice, the higher rate is operative.

Seven Day Market Loans and Day to Day Money have been already explained, and need no further mention.

Enough has been said to indicate how great may be the fluctuations in the Money Market, and how many are the considerations

which must weigh with those who deal in the same as to the methods to be adopted in the management of their business. The bill brokers must watch the movements with the utmost keenness, and at the same time in order to render their transactions of a profitable character, the competition that must exist in every trade must be confined within certain limits. It is for this reason that the bill brokers meet periodically, discuss the whole question of supply and demand, and then issue a statement of the rates at which they will do business, which statement finds its way in the ordinary course into the daily papers.

No doubt there are some other influences at work which reflect upon the Money Market, and it is sometimes asserted that manipulations take place at certain periods which tend to show that the banks have in hand larger balances in cash than they ought to exhibit. It is doubtful whether practices of this kind are carried on to the extent which is sometimes suggested. It is to be hoped, and it is generally accepted, that our banks are in too sound a position to require anything in the shape of what is vulgarly known as "window-dressing."

CHAPTER XII

FINANCIAL CRISES

Introductory Remarks.

THE speculative instinct of mankind will never be altogether eradicated, and just as individual men and women are led to ruin by unreasoning impulses, so a whole nation may be led into such a line of action as to give rise to a total collapse of credit for the time being, and plunge a large portion of the people into the lowest depths of misery and disaster. When credit is destroyed there occurs what is called a financial crisis. There is a wholesale demand for actual coins, which demand cannot be satisfied in every case, and widespread ruin is the inevitable result.

It is not always difficult after the event to account for the occurrence of a financial crisis, but it is not so easy to see its approach and consequently to ward it off. Indeed, some acute economists have looked upon periodic crises as part of a natural law, and have striven to discover some external causes for the happening of the same. It is, however, useless to follow these writers in their speculations, and without attempting to account for any underlying principle or principles connected with what has been called the "periodicity of crises," we will proceed to deal with the crises of 1825, 1837, 1847, 1857, 1866, 1878, and 1890. We shall also record the events of the year 1893, which was notable for a serious crisis in Australian banking. It is too early yet to estimate fully the effect of the Great War which broke out in 1914.

The Crisis of 1825.

In 1825 a severe panic occurred, which is usually attributed to a wild outbreak of speculative insanity (particularly in regard to mining shares) which affected all classes of the community, coupled with an excessive issue of notes by country banks. The speculative fever was at its worst during the first four months of 1825, and many country banks during that time largely increased their note issues by way of advances upon various commodities. The Bank of England had also increased its note issue during the time that the speculative fever was raging, but in May it contracted its

issues to a considerable extent. This change of policy aggravated the general feeling of discredit that had become apparent, and by the autumn there was every indication of a severe crisis.

Each month during 1825 there was an alarming decrease in the amount of bullion held by the Bank of England, and on the 26th November it stood at the very low sum of £3,012,150. At the commencement of December the panic began in deadly earnest. On the 3rd December it became known to the directors of the Bank of England, that Pole, Thornton & Co., one of the leading banks in the City, was in difficulties. The Bank of England made large advances to that firm, but this did not save the situation, and a few days afterwards the great banking house of Pole, Thornton & Co. suspended payment. The panic was now at its height, and runs were made upon other London banks, some of which failed. The alarm quickly spread to the country banks, and a large number stopped payment ; but some of them afterwards resumed business.

Towards the end of December the panic subsided, and early in 1826 banking credit was restored. The seriousness of the position, however, may be gauged from the fact that on 31st December the coin and bullion in the hands of the Bank of England stood at the extremely low sum of £1,260,890.

During the crisis, complete discredit had fallen upon the country banks and their excessive issues of notes. The notes of the Bank of England only circulated on a comparatively small scale in the country, as the first branches of the Bank were not opened till 1826. At the height of the panic, the directors of the Bank ascertained that there was a chest of £1 notes that had not been used. It was thought that these might stay the panic and the discredit of the country notes. The directors made known their idea to the London bankers who cordially approved of it, and the £1 notes were duly despatched to various country banks, the result being that the panic was at once arrested.

After the crisis, Parliament met on the 3rd February, 1826, when the causes and the course of the panic were thoroughly looked into. It was generally admitted (although differences of opinion existed) that the over-issues of small notes by the country banks had been one of the main causes of the crisis. Accordingly, the issue of notes under the value of £5 was finally forbidden to the country banks, as well as the Bank of England.

The Crisis of 1837.

This was brought about by excessive railway speculation; in fact, the country seemed to be smitten with a railway mania. In conjunction with the projection of railways upon an extensive scale, many millions were invested in mines, insurance companies, and banks. The crisis was hastened by undue facilities being given by some banks for the increase of credit, and by the excess issues of notes on the part of many country banks. This latter fact practically brought about the passing of the Bank Charter Act of 1844, the operations of which we have already dealt with in detail in a previous chapter.

The trouble in this country was accentuated by the fact that difficulties arose in the United States where a large number of banks failed, and at the time, our trading relations with that country were very close.

The reckless speculation in railways (which we shall notice was repeated during the next crisis), although it proved disastrous at the time, was ultimately the means of conferring considerable benefits upon the country, as a result of the great extension of railway facilities.

The Crisis of 1847.

After 1837, railways still continued to receive attention, and reckless speculation was once again indulged in. The continued locking up of capital for purposes of railway development resulted in the diversion of huge sums from the ordinary channels of commercial transactions. As a result, money became "dear," and the Bank Rate was raised to 8 per cent. on the 23rd October, 1847. Undue extension of credit facilities had been brought about by what were termed Exchange Banks. These concerns made a speciality of advances upon the security of railway shares. Persons were encouraged to speculate in the shares, raise a loan upon their security, speculate again with the money raised, and so it went on. The price of shares rose to a high level, but the reaction was severe. The Exchange Banks suffered great losses, and all of them failed. Large numbers of customers lost their money, and the feeling of distrust spread, with the result that runs were made upon other banks.

The crisis of 1847 was intensified by the bad harvests of that year

and preceding years, and also by the failure of the potato crop in Ireland in 1846. As a result of the potato famine, heavy expenditure was necessary to secure food supplies, and so deal with the unfortunate state of affairs in Ireland. In addition to the grave troubles of famine, fever, and pestilence in Ireland at that time, there was the cost of increased importation of food owing to the deficient harvest here.

The Reserve of the Bank of England fell so low that it became necessary for the directors of the Bank to place the position before Parliament, and, as a result, the Bank Charter Act of 1844 was suspended. There was no restriction of cash payments by the Bank as is sometimes supposed. The suspension of the Bank Charter Act was not a complete suspension of the Act, but only of the clause referring to the issue of notes beyond the amount of securities lodged in the Issue Department.

When the Bank Charter Act was suspended in 1847, it was on the understanding that the rate charged for advances by the Bank should be not less than 8 per cent. The knowledge that the Government had intervened and that as many notes as might be required could be obtained, had the effect of calming the prevalent nervous feeling, with the result that the panic soon subsided. Confidence was sufficiently restored, so that the power to suspend the Bank Charter Act was a formality, and it was not necessary for the directors of the Bank to avail themselves of the privilege.

The Crisis of 1857.

In 1857 another crisis occurred. Trade was depressed, and the country was feeling the ill-effects of the Crimean War. It often happens that depression is greater after, than during a war. For some time, over-financing had been going on in America, and our trading relations being closely connected with that country, the resultant suspension of many American banks made itself felt here. A feeling of distrust and excitement became prevalent, credit was restricted, and the banks strengthened their positions by withdrawals from the final banking reserve of the country, namely, that of the Bank of England. Matters were made much worse by the fact that a large volume of accommodation bills had been created. Indeed, the Select Committee of the House of Commons appointed to inquire into the crisis of 1857, came to the conclusion that the

large volume of accommodation paper in the country was the main cause which led up to the panic.

It was thought that, in spite of the heavy demands being made upon the Bank, it would be able to cope with the situation. Unfortunately, however, matters were brought to a head by the failure of the Liverpool Borough Bank, which was soon followed by the great Anglo-American house of Dennistouns, and two days after, the Western Bank of Scotland failed. As a result of these disasters, the Reserve of the Bank of England became depleted to such an extent, that the Government on the 12th November authorised the suspension of the Bank Charter Act of 1844. In this crisis the Bank availed itself of the Parliamentary authorisation, and issued £2,000,000 in notes.

Of this £2,000,000, the Bank found it necessary to put into circulation only about a half. The rest was held in the Banking Department as part of the Reserve—in the ordinary way.

As was the case in the crisis of 1847, the knowledge that the Government had intervened, calmed the excited state of the public mind, restored confidence, and the panic subsided.

This crisis of 1857 was more serious than that of 1847, and the Reserve of the Bank of England on the night of the 12th November of the former year, fell to the perilously low figure of £580,751. The Reserve actually in London would be considerably less than that figure, since the above-mentioned sum, as we are aware, includes the figures of the Bank's branches. On the above date, the letter from the Government authorising the suspension of the Bank Charter Act was received by the Governor of the Bank, and the position was saved.

The Crisis of 1866.

In this year occurred probably the worst crisis of the nineteenth century. On Friday, 11th May, Overend, Gurney, & Company, Limited, a discount house of great repute, failed with liabilities amounting to approximately eighteen and a half millions as on the date of the suspension. The above date was then, and is now, known as " Black Friday " ; and the crash was of such magnitude that no bank in London was considered safe. As a result of the panic scare, insane rushes were made upon all classes of banks, and for a short time there was a general " run."

The suspension of Overends came as a staggering blow to the general public, although, as is usually the case in matters of this kind, the event was expected in a limited privileged circle in the City.

The great house of Overends originated from the old Norwich Bank founded by Henry Gurney in 1770. This bank had been engaged for some years in bill discounting, and finding that the occupation was a profitable one, it was decided to form a separate firm for bill discounting only. The Norwich Bank entered into negotiations with many leading merchants of the town, and, as a result, the new firm was put forward with John Overend, Samuel Gurney, and Thomas Richardson (three young clerks) as founders. The new firm was for some time under the control of the Gurney family, and was merely an agency. The Norwich Bank, not desiring their connection with the new firm to be apparent, styled the undertaking as Richardson, Overend & Co. After a time, however, consequent upon the retirement of Thomas Richardson and the death of John Overend, the firm carried on business as Overend & Co. with Samuel Gurney as the sole partner. It was due to the efforts of Samuel Gurney that the firm reached its subsequent level of eminence and wealth.

For many years the firm enjoyed unquestioned credit, and in some quarters their position was considered second only to the Bank of England itself. Samuel Gurney strongly advocated the principle that bankers, instead of placing their reserves with the Bank of England, should lodge them with bill brokers. In this way, he contended that future financial crises (which he stated were mainly caused by the reliance of many banks upon one bank) would be prevented. This course of action was adopted by several banks in London and the country, and as a result, enormous sums were placed on deposit with Overend, Gurney & Co.

Samuel Gurney—who may be regarded as one of the great financiers of modern times—died in 1856. As is often the case, the consequent withdrawal of capital and wide experience made their effects felt later.

The fortunes of the great house of Overend, Gurney & Co. were for some time on the wane, and in 1865 it was decided to turn the business into a limited liability company.

After the death of Samuel Gurney, the operations of the firm were

continued upon the same magnitude as before, but the diminished resources and experience resulted in large sums being advanced against securities of such a nature that they could not be realised promptly and without loss. Enormous sums were, in fact, locked up.

The goodwill of the business of Overend, Gurney & Co. was valued at £500,000, and one-half of this was paid to the Vendors in cash, and the other half in shares of the company. The public eagerly subscribed for shares, and on 12th July, 1865, Overend, Gurney & Co., Limited, displaced the firm. The capital of the company was £5,000,000 in 100,000 shares of £50 each, and the business of the firm (that of money dealers and bill brokers) was handed over to the new company on 1st August, 1865.

The fall of Overend, Gurney & Co., Limited, was largely due to the fact that they adopted the system of paying interest on deposits at call. The enormous sums received in this way, were speculated mainly in American securities ; and, as a result, the money was not available when the time of pressure arrived. In fact, for years the firm had been quite insolvent.

At the latter end of 1865 and early in 1866, large sums were withdrawn from the company by depositors, and a heavy fall in the price of the shares took place. The company could not stave off disaster, being hopelessly insolvent, and their failure caused great apprehension and distress. The crises of 1847 and 1857 were more in the nature of mercantile than financial trouble ; but in the crisis of 1866, banking credit was in grave danger. Of course, there were many more failures besides that of Overend, Gurney & Co., Limited ; but the crisis year of 1866 is especially notable for the collapse of that company.

The speculative company promoting, as a result of the passing of the Companies Acts of 1862, coupled with the great fluctuations in the price of cotton and the distress entailed—particularly in Lancashire—as a result of the limited importation of that commodity due to the American Civil War, were the underlying causes of the severe crisis of 1866.

There were enormous demands by various banks for assistance from the Bank of England, and the Reserve of that institution fell so low, that for the third time since 1844, the Bank had to place the position before Government ; and, as a result, the Bank Charter Act of 1844 was suspended for the third and last time. There was,

however, no need for an issue of notes beyond the limits prescribed by the above Act, as was the case in 1857. The gravity of the general situation may be gauged by the fact that the Bank Rate was 10 per cent. for three months. We know that a high Bank Rate has the effect of attracting gold from other financial centres and so replenishing the Reserve of the Bank of England, but in 1866 English credit was in such a low state, that in spite of the high rate of interest prevailing, gold was attracted very slowly.

The creditors of Overend, Gurney & Co., Limited, were ultimately paid twenty shillings in the pound (with interest) but the shareholders were called upon to pay £25 on every £50 share they held. In accordance with the prospectus of the company, only £15 per share was to be called up ; so that with the three calls (amounting in all to £25) made upon the shareholders after the failure of the company, a total sum of £40 per share was paid by the unfortunate shareholders.

The Directors of the company were brought to trial at the Guildhall, but they were acquitted.

We have seen that the Bank Charter Act of 1844 has been suspended on three occasions, due to the very heavy demands made upon the Bank of England as the pivot of our banking system, and the holder of the only great reserve of gold in these islands. In each case, the action of the Government has met with complete success, and the great utility of the Act is to be found in the power of suspending it when circumstances warrant that course. Much has been written for and against the general effect of the Act upon our banking system generally, but the subject is a debatable one, and for that reason we do not enter into a discussion of the matter.

The City of Glasgow Bank Failure, 1878.

Although the failure of the City of Glasgow Bank in 1878 spread wide disaster in many parts, London was only slightly affected, and there never was anything bearing the slightest resemblance to a financial crisis, as compared with the crises already referred to in the foregoing paragraphs. The failure was not brought about by any "run," or local mistrust. It suddenly collapsed because it was hopelessly insolvent, and had been so for years. The cause of the failure is attributed to the advancing of huge sums to a few firms, on very slender security,

For some time previous to the collapse, there had been a strong suspicion among bill brokers and several banks, that something was radically wrong, owing to the very large quantity of the bank's acceptances that kept continually coming forward. The bank was not considered as being of the same standard as the well-known Scottish institutions that are still with us, and have played such a prominent part in the maintenance of the eminent banking traditions of Scotland.

The year 1878 is a melancholy date in the history of banking in Scotland. The liability of the stockholders in the City of Glasgow Bank was unlimited; and during the liquidation, calls were made to the extent of £2,750 for every £100 of stock held. As a result of the failure, there were many cases of extreme hardship, and utter ruin was brought upon a large number of homes and families in Scotland.

For some years, falsified balance sheets had been issued which had the effect of keeping the bank in existence, and the confidence of the general public was maintained up to the last. At the date of the suspension, the liabilities were estimated at over twelve millions.

The Reserved Liability Act, 1879.

In 1858 an Act was passed to grant limited liability to those banks which desired it. A considerable number of the banks did not avail themselves of this facility, as they considered that the limitation of the liability of the shareholders would cause some apprehension among the depositors, and that loss of business would result. The ruin caused by the collapse of the City of Glasgow Bank resulted in a great depreciation of bank shares generally, and for some time they were almost unsaleable. Accordingly, in 1879, a new Act was passed which brought into being what is known as "reserved liability." By this Act, a certain portion of each share could only be called up in the event of the liquidation of the bank, and that amount is termed "reserved liability." Many banks took advantage of the Act, and it had the effect of calming the uneasiness in the public mind as regards bank shares. On the one hand, the shareholders were protected inasmuch as they could only be called upon to pay a definite sum in the event of liquidation. On the other hand, the creditors of the bank had, by virtue of the reserved liability, a definite security for the payment of their debts.

The Baring Crisis, 1890.

In 1890 the great merchant banking house of Baring Brothers & Co. was in difficulties. This great house which had a long and unblemished record, world-wide influence, and had conducted many transactions in international finance upon a scale of princely magnitude, reached the climax of its career on the 15th November, 1890. Strong action by the Bank of England combined with the other banks, resulted in the formation of a guarantee fund to cover the liabilities on acceptances of Baring Brothers & Co., which amounted to the huge sum of £15,775,000. The formation of this guarantee fund obviated a complete disturbance of credit that would assuredly have taken place had Barings not been assisted in the way they were. The firm was quite solvent, but its unfortunate position was due to the fact that it was greatly interested in the financial transactions of the South American countries, which for some time previous to 1890 had been under a cloud owing to the borrowing of enormous sums. The firm had unwisely entered into very large transactions in regard to South American securities ; but their assets would, nevertheless, show a substantial surplus on realisation. The position was, however, that the assets were not in that liquid state which we know to be so essential. The failure to float the Uruguayan 6 per cent. loan for £4,255,300, together with the Buenos Ayres Water Supply and Drainage Company with a capital of £5,000,000, brought matters to a head.

The active measures taken by the Bank of England in conjunction with other important banks, in forming a guarantee fund, had the effect of preventing practically any disturbance of credit taking place. The general public was not made aware of the Baring crisis, until the position had been quietly saved.

The total liabilities of Barings at the time of the suspension amounted to about thirty millions, and had that house been permitted to fail, it is difficult to imagine how disastrous the results would have been.

The events of the crisis of 1890 are always associated with the name of the then Governor of the Bank of England—the Right Hon. William Lidderdale. That gentleman was afterwards publicly thanked for the strong and decisive action that had been taken at a time of grave financial danger.

On the 25th November, 1890, a company was formed—Baring

Bros. & Co., Limited—to continue the great merchant banking business that had been built up by the firm. Barings occupy an eminent position in the banking world of to-day.

The blow dealt at banking credit in the City by the collapse of Overend, Gurney & Co., Limited, in 1866, had a very much more serious effect than the Baring crisis, although the latter business was of much greater magnitude than the former. The difficulties of Barings were grappled with promptly and decisively in the manner already indicated ; and no actual panic took place.

The Australian Banking Crisis, 1893.

The collapse of many Australian banks during the latter months of 1892 and the early part of 1893, caused some uneasiness in London, but the trouble did not spread to English banks.

For a good many years previous to 1893, the Australian banks had been obtaining enormous sums in deposits. In many instances the banks paid commission for obtaining deposits, and this fact, coupled with the comparatively high rate of interest offered, led to a large volume of British money being poured into the Australian banks. From Scotland especially, the London branches of the Australian banks received large sums.

Australia does not offer to banks the same field for desirable investment as our own country. It must be remembered that Australia has no money market, and, therefore, the banks there largely invested their funds by way of advances on houses, land, crops, cattle, and various agricultural products. Then again, for some years there had been keen competition among the banks, with the result that large numbers of advances were made against altogether insufficient margins.

A number of companies came into being for dealing with business of the nature indicated above. The banks, in the first place, should never have locked up their funds to anything like the amount they did in houses, land, crops, etc. This class of business is only suitable to a limited extent for banks, and it should have been left largely to the companies mentioned. However, the deposits continued to flow in, and the cause of the crash that ultimately came may be briefly summed up as unliquid resources at times of emergency. There is no doubt that for people to have speculated in land and buildings to the extent they did for several

years prior to 1893, the banks in Australia must have unduly assisted in such speculation.

The trouble commenced with the failure of the Mercantile Bank of Australia in 1892, followed in February, 1893, by the Federal Bank of Australia. The failure of the Commercial Bank of Australia in April, 1893, brought matters to a head. During the next few weeks, suspension followed suspension with alarming frequency. After the Commercial Bank of Australia, suspensions occurred as follows—

English, Scottish and Australian Bank.
Australian Joint Stock Bank.
London Chartered Bank of Australia.
Standard Bank of Australia.
National Bank of Australasia.
Colonial Bank of Australasia.
Bank of Victoria.
City of Melbourne Bank.
Commercial Banking Company of Sydney.
Queensland National Bank.
Royal Bank of Queensland.

Of the above banks, there were several that were solvent; but as was the case in the Baring crisis, the assets could not be readily realised during times of emergency.

The suspension of the Commercial Banking Company of Sydney caused considerable surprise, as it was looked upon as a very powerful institution. It made every effort to save the situation, but without avail.

The position became so serious that a "moratorium" was decreed; that is to say, bank holidays were declared from the 1st to 5th May inclusive. This practically amounts to a legal authorisation of a temporary suspension of payment, to be followed by the usual conduct of business. A moratory law is passed on an occasion of financial, commercial, or political stress. For example, during the Franco-German War, the French Government passed moratory laws. In the case of the Australian crisis, the "moratorium" was intended as a temporary measure of relief at a time of unprecedented financial trouble. Three banks—the Bank of New South Wales, the Bank of Australasia, and the Union Bank of Australia—did not suspend payment, nor did they avail themselves of the "moratorium." Their continuance of business as usual, gained for each

of them a great amount of prestige—which they still enjoy—and their action considerably steadied matters, calmed the feeling of panic, and the crisis abated. Most of the banks that suspended payment during the Australian crisis were reconstructed and resumed business. Since the anxious days of 1893, Australian banking generally has made excellent progress, and many of the institutions that suspended payment are now happily in strong positions.

There were many British depositors and shareholders who withdrew their deposits and sold their shares before the blow fell; but their action, of course, precipitated the crisis.

Crises and Speculation.

As a general rule, practically all financial crises are caused by excessive speculation. It does not follow that speculation has a disastrous effect in all cases. In practically all markets, the speculative operator is at work, and in many modern business transactions there is a certain amount of speculative element present. It is the excessive and wild speculation that becomes so dangerous, inasmuch as the undue raising or lowering of prices brought about by artificial means will result in reaction, contraction of credit, and financial disaster to many. Bankers now may be looked upon to a great extent as keepers of the public credit. In any speculative movement of appreciable dimensions, there will be an extension of credit, and a resultant demand for borrowed capital, much of which will be obtained from the banks. When it becomes evident that there is an unusually speculative spirit abroad, the banker acts his part as a keeper of the public credit by raising the rate of interest, and by exercising very great care in the manner in which he makes advances.

Crises and Modern Conditions.

With the exception of the Baring crisis, there has been no appreciable financial tension since 1878, the year in which the City of Glasgow Bank collapsed. There are various reasons which can be given why the recurrences of financial crises, once looked upon as natural periodic events, have not taken place in modern times. The first is that speculation has been carried on in a manner different from the wild methods of the early part of the

nineteenth century. When the last century was still young and advancement so rapid, owing to the multitude of inventions, all classes were led to risk money in endeavouring to make fortunes at a quick rate. The banks and the great financial houses were as much affected by the feverish spirit as the other members of the community. That is a thing of the past, and there is now little fear of trouble arising again from this cause. The great financiers move with caution. Then, again, banking methods have changed very considerably. The necessity for maintaining a good reserve, and for having their securities in such a form that they are easily realisable and consequently almost as good as ready money, has been recognised as the foundation of safe banking. Such a policy must prevent the granting of hazardous loans, or allowing money to be tied up for an indefinite period. True it is that there are not the chances, under such a *régime*, for huge profits to be made and high dividends to be paid, but the security gained has been an advantage to all classes of the community. Thirdly, there is a greater uniformity amongst the bankers as to the terms upon which loans are granted, and this increases as the number of bank amalgamations becomes greater, whereby competition for business is restrained. Lastly, it appears that there has been a great decrease in the number of accommodation bills upon the market. The majority of bills are now good trade bills, and the chances of their not being met at maturity are very slight when the number in existence is taken into account.

Crisis of 1914.

It is impossible at the moment to do anything more than refer to the crisis caused in the banking world by the outbreak of the Great European War in 1914. The effect of this epoch-making event and the manner in which it was met can only be accurately estimated and studied at a later period.

CHAPTER XIII

FOREIGN EXCHANGES

Introductory Remarks.

OWING to the great difficulty which surrounds the subject of Foreign Exchanges, or "Cambistry," as it was formerly called, it is not possible to do more than treat of the subject in the most elementary fashion.

In order to settle the differences which arise when people of the same country have commercial transactions, it is necessary to have money or bank notes in certain cases, though now, owing to the enormous increase of the credit system, bills of exchange, cheques, and promissory notes are in great use. And these are quite satisfactory so long as the public confidence is maintained. But when there is a question of settling differences between different nations, other considerations arise. The settlements have to be made, but it is no longer a question of credit—it is a case of actual payment. This plain statement of fact might easily lead to a misunderstanding, as it would appear at first sight that money has to be transferred from one country to another upon every transaction. Such a proceeding would obviously be most expensive and wasteful. It is necessary, therefore, for some means to be devised by which the actual transfer of coin can, as far as possible, be avoided. It is not likely that a time will ever arrive when shipments of gold coin or bullion can be altogether abolished, but as commerce between nations is more or less of a mutual character and the negotiability of well-known instruments of credit is universally recognised, it has come to pass that the export and import of the precious metals bear only the slightest ratio to the vastness of the amounts involved in business transactions out of which payments and receipts arise.

Balancing International Trade.

The problem must always be how to devise a method by means of which the necessity of transporting coin or bullion is reduced to a minimum. Put concretely, it may be stated thus :—Suppose an Englishman in London owes a sum of £10,000 to a Frenchman in Paris, what is the cheapest way of liquidating the debt? If

gold has to be transmitted, one or other of the parties must bear the cost of carriage, and therefore lose something upon the transaction. But if, on the other hand, it is possible for either of the parties to find other people who are indebted in the other direction, that is, if there are one or more persons in Paris who owe money to a person or persons in London, and an exchange of indebtedness is made, a number of transactions can be carried out without the transport of the sums of money involved.

This will be all the clearer if we give an illustration. Whenever goods are sold, it is the usual custom to draw bills against the shipment, and consequently it follows that when two countries have mutual dealings, there must always be two sets of bills in circulation. The importer of wool, say, from Argentina, has to pay the draft drawn by the exporter from that country, and the exporter of iron to Argentina draws a bill upon his customer there in the same way as the wool exporter did. If the amounts are identical the transactions are balanced as follows—

Argentina.		United Kingdom.	
A. Importer of Iron	£500	C. Importer of Wool	£500
B. Exporter of Wool	£500	D. Exporter of Iron	£500

A buys the bill of B and remits to D, whilst C buys the bill of D and remits to B, so that the transactions are completed without the transmission of any coin. The above illustration is founded upon the supposition that all the transactions between various countries balance, and that bills of exchange can settle all commercial dealings. But in practice there is always a balance owing to or from a country, and the settlement must obviously take place in some other way.

England's Position.

Owing to the rapid growth of England's commerce and also to the stability of our standard of value, London has become the financial centre of the world, and consequently there is no country which has not large and constant dealings of one kind or another with London. It has, therefore, become the custom to draw bills upon London, that is, to draw bills which are payable in London, all over the world. These bills, provided they are good, are accepted everywhere, and they have become a species of international currency. And since the bills are so plentiful and common,

it is always easy for any person who is abroad and desires to make a remittance to England to purchase one of these bills from an individual whose particular business it is to deal in them, and to post the bill to this country. The money is then paid in England, and the debtor is released from his obligation. Bills drawn on London are called "sterling bills." Owing to the large amount of work done in thus settling and collecting accounts, London has become by degrees a kind of clearing house in which international indebtedness is settled.

Foreign Exchanges.

The system by which commercial nations discharge their mutual indebtedness is called "foreign exchanges." It deals, in fact, with the means of transmitting and settling international debts. At the same time, however, it deals with the international value of money, and with the value of a debt due in one country and payable in another. The term "foreign exchanges" is used at the present day to mean the rates of exchange between England and foreign countries, and *vice versâ*.

Mint Par of Exchange.

If the systems of coinage of two or more countries are considered, it will be seen that there is a difference in the fineness of the precious metals used, that is, the quantity of alloy in the coins of one country is greater than in those of another. Before it is possible, therefore, for any settlement of differences to be arrived at, the value of the metals must be adjusted, because when there is any transportation of coins, they are only estimated by their weight and fineness as bullion. The face value of the coins never enters into consideration at all. But if the coinage of two countries is of the same metal, and both coinages are at their full weight and fineness, a calculation can be made by means of which an estimate of one can be arrived at in terms of the other: in other words, a relation has to be established between the amount of pure metal in the standard coins of the different countries, and this is called the "Mint Par of Exchange." Thus, taking the legal standards of England and France as gold, and the English pound as the standard unit of this country, the par of exchange between England and France is the number of standard units of

the French coinage which contain precisely as much pure gold as the English pound. The Mint Par of Exchange as between London and Paris is, as a matter of fact, 25·2215 francs, and this means that the amount of gold in an English sovereign is just the same as that contained in 25·2215 francs, taking the Napoleon, or twenty-franc piece, as the standard for the gold coinage of France. Single gold francs are not coined in France, but one franc, that is, the twentieth part of a gold Napoleon, is taken as the unit. Just as Mint Pars of Exchange are calculated between London and Paris, so they are calculated between London and other centres. Between London and Berlin it is 20·43 marks to £1; between London and New York $4·867 to £1; and between London and Vienna 24·02 kronen to £1.

Naturally, if there is any debasement or defacement of the coinage of a country, so that it is thereby depreciated in any way, the Rate of Exchange is at once affected. The foreign exchanges very soon show the effect, and the international differences have to be settled upon a new basis. It cannot be too strongly insisted upon that in fixing the Mint Par of Exchange it is the value of the metal alone which is taken into consideration, and when a comparison is made between coins, the value of the metal having been estimated, they are calculated as though they were placed side by side and no expense incurred in the shape of transport.

Upon the slightest consideration it will be quite clear that it is impossible to arrive at anything in the shape of a Mint Par of Exchange if the countries which are compared do not possess the same metal as their standard of coinage. Thus, for example, there can be no Mint Par of Exchange between England, a gold standard country, and China, a silver standard country, owing to the fact that there is a continuous fluctuation in the comparative values of gold and silver, and that any attempt to fix a ratio between them could only lead to confusion.

This Mint Par of Exchange will not vary, unless the coinage laws of one country are altered. To establish the Mint Par between two countries, we must first ascertain the quantity of pure gold in their standard coins. Let us take England and France.

(*a*) At the English Mint, 40 lbs. troy of $\frac{11}{12}$ fine gold are coined into 1,869 sovereigns. That is to say, eleven parts out of every twelve are pure gold, and one-twelfth is alloy.

(*b*) At the French Mint, one kilogramme of $\frac{9}{10}$ fine gold is coined into 155 Napoleons (a Napoleon being twenty francs). In this case we see that the "fineness," as it is termed, differs from English gold, in that French standard gold is $\frac{9}{10}$ fine; *i.e.*, nine parts out of ten are pure gold and one-tenth is alloy. Consequently, the amount of pure gold in 3,100 francs (*i.e.*, 155 Napoleons × 20) is 900 grammes.

In order to find the Mint Par, we have now to determine the number of francs that are equal in value to a sovereign, having found that 900 grammes pure gold are contained in 3,100 francs.

In our Coinage Act of 1870, the metric weights of English coins are given, which fact is of assistance when we have to compare them with foreign coins. The metric weight of the sovereign is 7·98805 grammes. Proceeding by chain rule [1] which is used largely in Foreign Exchange calculations, we have—

$$
\begin{array}{lcl}
? \text{ francs} & = & £1. \\
£1 & = & 7{\cdot}988 \text{ grammes standard.} \\
12 & = & 11 \text{ grammes fine.} \\
900 & = & 3100 \text{ francs.}
\end{array}
$$

$$
= \frac{7{\cdot}988 \times 11 \times 3100}{12 \times 900} = 25{\cdot}2215
$$

Therefore, we have found that one sovereign is equal to $25{\cdot}22\frac{3}{20}$ francs which is the Mint Par of Exchange between England and France. Francs are often written as Fr. 25·2215.

With regard to German coinage laws, 500 grammes fine gold are coined into $69\frac{3}{4}$ twenty-mark pieces, nine-tenths fine. To find the Mint Par of Exchange we proceed as before—

$$
\begin{array}{lcl}
? \text{ marks} & = & £1. \\
£1 & = & 7{\cdot}988 \text{ grammes standard.} \\
12 & = & 11 \text{ grammes fine.} \\
500 & = & 1395 \text{ reichsmarks.}
\end{array}
$$

$$
= \frac{7{\cdot}988 \times 11 \times 1395}{12 \times 500} = 20{\cdot}43 \text{ (nearly).}
$$

[1] Chain Rule is a series of equations arranged in two columns, and each equation represents the relation between the two quantities. The first equation is a statement of what we are required to find. As regards the succeeding equations, each has for its first term amounts of the same denomination as the last term of the preceding equation. The last term of the final equation is in terms of the required answer. The product of the right-hand numbers divided by the product of the left-hand numbers, will give the required answer.

Therefore, £1 = 20·43 reichsmarks[1] which is the Mint Par of Exchange as between Berlin and London. Marks are frequently written as M. 20·43.

At the United States Mint, a ten-dollar piece is coined out of 258 grains $\frac{9}{10}$ fine gold. By our Coinage Act, an English sovereign contains 123·274 grains standard gold; so that we may ascertain the Mint Par of Exchange between London and New York as under—

? $ = £1.
£1 = 123·274 grains standard.
12 = 11 grains fine.
232·2 = 10 dollars.

$$= \frac{123{\cdot}274 \times 11 \times 10}{12 \times 232{\cdot}2} = 4{\cdot}86\tfrac{2}{3}.$$

In the above statement, 232·2 is nine-tenths of 258 grains.

The undermentioned are the principal Mint Pars with London, namely—

Paris	Fr.	$25{\cdot}22\frac{3}{20}$ to £1.
Berlin	M.	20·43 to £1.
New York	$	$4{\cdot}86\frac{2}{3}$ to £1.
Vienna	Kr.	24·02 (*i.e.* Kronen) to £1.

As we have seen, in England the standard of gold coins is $\frac{11}{12}$ fine. This would be termed 22 carat by jewellers, and as pure gold is 24 carat, 22 carat gold shows that 2 carat alloy has been added, thereby making the metal $\frac{22}{24}$ fine, *i.e.*, $\frac{11}{12}$ fine, which is English standard gold.

At the English Mint 1,869 sovereigns are coined from 480 ozs. of $\frac{11}{12}$ fine gold. It follows, therefore, that each ounce of standard gold is equal to £3 17s. 10½d., which is known as the Mint price. Most of the gold that comes to the English market is taken by the Bank of England, and that institution must give £3 17s. 9d. per ounce for $\frac{11}{12}$ fine gold offered to it, as has already been stated in Chapter X.

In most countries the gold standard is $\frac{9}{10}$ fine, and when foreign gold coins are purchased by the Bank of England (which is often the case) it buys them at a proportionate rate and by their weight.

The Mint price of standard gold, namely, £3 17s. 10½d. per

[1] The "mark" of the Empire; "reichs" meaning "Empire," and "mark," a token representative of money.

ounce, is the value of gold bullion expressed in terms of gold coinage. This price is not always a fixed one, as might be supposed, as it occasionally happens that when some countries particularly require gold in large quantities, they will give more than the Mint price. Some of the gold arriving in London is, of course, purchased by other countries. Whilst the Bank of England must buy $\frac{11}{12}$ fine gold at the rate of £3 17s. 9d. per ounce, it will sometimes give about a halfpenny more.

The coinage of gold is free in this country, and anyone who takes bar gold of the value of £20,000 or upwards to the Mint will receive it back in due course in sovereigns. In practice, however, bar gold of standard fineness (*i.e.*, $\frac{11}{12}$) is delivered to the Bank of England, which buys it at the rate of £3 17s. 9d. per ounce, making payment at once. The difference of 1½d. per ounce between the Mint price and the price paid by the Bank of England, is equal to the loss of interest (during the time the sovereigns are being minted) and other expenses.

The Mint Par of Exchange is of importance because it is the pivot, as it were, of the rates of exchange; and we cannot tell whether a rate is for us or against us, unless we know the par. The Mint Par is a legal ratio; that is to say, when we state that a sovereign equals Fr. 25·22, it is taken to mean that this amount in French currency represents (according to French coinage laws) the same weight of gold in one sovereign, according to English coinage laws. Consequently, if we melted, say, 2,522 French Napoleons and 2,000 sovereigns (which are equal since £1 = Fr. 25·22), it does not follow by any means that we should obtain two pieces of gold of exactly the same value. That would depend upon the condition in which the coins were. The Mint Par, therefore, does not depend upon the actual coins, but upon the legal definition of the amount of gold contained therein. It follows, therefore, that the Mint Par depends upon the coinage laws, and cannot change until such laws are altered. It will, of course, make no difference whether gold coins are mutilated, or worn below their legal weight —the Mint Par of Exchange will still be the same.

Calculation of Indebtedness.

As a person can always calculate his actual indebtedness in the coinage of another country, whenever it becomes a question of

having to settle differences by the payment of money, he is able to consider what are the best means of liquidating the same. The question is, in the first instance, whether money shall be transported, or whether there is some cheaper method by means of which the outstanding debt can be settled. There is always a large number of bills drawn upon London in existence, and a debtor will find out what is the price which he will have to pay for a bill or bills covering the amount of his debt in order to send the same to his creditor. There are great variations in the prices of bills, owing to many circumstances, but there are limits beyond which they can seldom go. Naturally, if these limits were exceeded it would be cheaper to send coin and not trouble about bills at all. The limits are known as the specie or gold points. Thus, suppose that a merchant in Paris has to make a payment of £1,000 to a merchant in London. Owing to the risk and expense attendant upon the sending of coin, he will do all he can to avoid sending over the equivalent of £1,000 in Napoleons, but will seek out a bill broker who deals in bills drawn on London, and ascertain what is the price of a £1,000 bill. If the price is not in excess of the price of the carriage of bullion to the value of £1,000, together with the £1,000, the bill will be bought and sent to its destination by post.

Gold Points or Specie Points.

Rates of exchange vary day by day, but there is a certain limit to such variations. The Mint Par of Exchange is not the existing rate of exchange. When the rate of exchange happens to be the same as the Mint Par, it is merely a coincidence of figures. The rate of exchange may rise above or fall below the Mint Par, but seldom to a greater extent than the cost of sending gold. Therefore, the cost of shipping and insuring gold, theoretically fixes the limit beyond which the rates of exchange seldom vary. To arrive at the rate at which it is as cheap to send gold from London to Paris as to buy a draft, we have to take the cost of carriage, packing, and insurance between those two places—which is equal to (about) 10 centimes per £1—and deduct that sum from the Mint Par. Conversely, to arrive at the point at which it is as cheap for a French merchant to send gold as to purchase a bill on London, we add 10 centimes to the Mint Par.

We may, therefore, state as follows—

Mint Par. Cost of transmitting gold.
Fr. 25.22 − 10 C. = Fr. 25.12 Specie Point, London to Paris.
Fr. 25.22 + 10 C. = Fr. 25.32 Specie Point, Paris to London.

The above specie points are not absolutely definite figures. The cost of transmitting gold from London to Paris or Paris to London, may be taken as about 10 centimes per £1, but the charge will vary slightly according to the volume of the operation. For instance, on a small shipment of gold the charges might amount to 12 centimes per £1, whilst on a large shipment the charges might be reduced to 8 centimes per £1. If the rate of exchange rises to the export specie point, it is quite immaterial to the person making the remittance to Paris, whether he sends gold or purchases a draft.

With regard to Berlin, the specie points are as follows—

Mint Par. Cost of transmitting gold.
M. 20.43 — 10 pfennigs (per £) = M. 20.33 Specie Point, London to Berlin.
M. 20.43 + 10 ,, = M. 20.53 Specie Point, Berlin to London.

With reference to the specie points London to New York, and New York to London, the rates vary, as the time occupied in transit introduces the question of interest. The charges for shipments equal about ·037 cents, and the specie point from London to New York may be taken as about $4·83, and from New York to London at about $4·90.

Theoretically, the rates of exchange cannot vary beyond the import or export specie points, for a person making a remittance will not pay more for a bill than the cost of sending gold. In practice, however, the rate does occasionally fall or rise beyond the specie points. The reasons for this are—

(*a*) The cost of transmitting gold varies slightly from time to time, and therefore the usual specie points are not permanently exact.

(*b*) Gold may at any time be obtained in London for export, but in other financial centres this is not always possible. For example, the Bank of France (which has a large gold reserve as a backing for its enormous note issue) will place a premium on gold intended for export, should circumstances arise that render an export of the metal inconvenient. The fact that gold may be obtained in London for export purposes, without it being necessary to surmount any obstacles to secure the metal, has earned for the City its title of a " free market for gold."

At the time of the recent American financial crisis which was at its height in November, 1907, an unusual position arose with regard to Foreign Exchange rates. On 4th November of that year, the cable exchange rate in New York on London was $4·90½, which signified that 4 dollars 90½ cents were being given for one sovereign. Under ordinary conditions, when the rate rises to that figure, gold would be sent from the United States to England, as has been already pointed out; and at normal times, gold would be exported from England to the United States at $4·83. There was thus a difference of 7½ cents between that figure and the one ruling during November, 1907, and yet gold was imported into the United States. The reason was that the American banks were so pressed for the metal, that they were prepared to pay an uncommercial price for it.

Foreign Bills.

It is clear, therefore, that the chief method of settling international debts is the utilisation of bills drawn upon London. But it is not to be assumed from this statement that there are not also plenty of bills in existence which are drawn payable abroad. They are, however, few in comparison with the other kind. It is not worth while for an English debtor to draw a bill payable abroad when it is possible to pay debts by accepting bills payable in London. In addition, there is the advantage derived from uniformity of practice. In point of fact, the bills drawn upon London do not, as a matter of course, find their way to this country at once. On the contrary, they form a species of international currency, and foreigners settle their own differences by means of the same kind of bills. For example, a debtor in Paris will pay his creditor in Berlin by a bill drawn upon London And this same bill may, in turn, visit various other capitals or important cities in liquidation of international debts, and only when it matures will it arrive at its domicil.

Foreign Centres.

The foreign exchanges are of much greater importance abroad than in England, because there are more dealings in bills, especially as bills on England form a favourite investment. In fact at various foreign centres there is a gigantic business carried on in bills. And the price of the bills is fixed in the same manner as the price of

other commodities, that is, the ordinary laws of supply and demand are applicable to them. When the bills are very plentiful, the price sinks below the Mint Par of Exchange; when the demand for them is greater than the supply, the price rises above the Mint Par of Exchange. But it is not by continually altering the rates of interest and discount that the value of a bill is calculated and its present amount ascertained. Calculations are made in the currencies of the countries concerned; these are published, and a result is then arrived at. The constant variations lead to a vast amount of speculation, especially in the foreign centres where they are so largely dealt in.

There is another important element in the foreign exchanges which must not be lost sight of, and that is that foreign banks and mercantile firms abroad invest their surplus funds in bills payable in England which mature at various dates, so that the rate of interest prevailing in this country causes continuous fluctuations.

Quotation of the Foreign Exchanges.

Foreign bill transactions are settled at the Royal Exchange, London, twice in each week, namely, on Tuesdays and Thursdays, on which days a number of exchange brokers and representatives of the important foreign banks in London meet for the purpose of buying and selling foreign bills. The prices are fixed and the quotations are then published in the papers. On the opposite page is a specimen, the fourth column being added to assist in understanding the quotations.

The rates that are here given are those which are quoted in London for negotiable paper (bills and cheques), which is payable at the different places mentioned. It is to be understood that such a quotation as "Stockholm, 18·42–46" is a shortened form for "Stockholm, 18·42—18·46." This remark applies to all the other quotations.

It will be observed that there are two prices mentioned for each town under each date. The first price is that demanded for first-class bank paper, and the other for ordinary trade bills. This is similar to the different rates of discount which are charged by the London banks for bills which vary in character, so far as their commercial value is concerned. A great authority has said: "Credit is a very important element to be considered in the rate

THE COURSE OF EXCHANGE.[1]

	Time.	Prices negotiated. 14th Sept.	Prices negotiated. 12th Sept.	
Amsterdam	Short	12·17⅞ – 2⅛	12·17⅞ – 2⅛	Guilders and stivers for £1.
,,	3 Mths.	12·4 – 4½	12·4 – 4½	
Rotterdam	,,	12·4 – 4½	12·4 – 4½	
Antwerp and Brussels	,,	25·60 – 67½	25·61¼ – 67½	
Paris	Short	25·20 – 25	25·22½ – 27½	Francs and centimes per £1
,,	3 Mths.	25·41¼ – 47½	25·42½ – 47½	
Marseilles	,,	25·42½ – 47½	25·42½ – 47½	
Hamburg	,,	20·70 – 74	20·69 – 73	Marks and pfennigs per £1
Berlin	,,	20·70 – 74	20·69 – 73	
Leipsic	,,	20·70 – 74	20·69 – 73	
Frankfort-on-the-Main	,,	20·70 – 74	20·69 – 73	
Petersburg	,,	25 – 25 1/16	25 – 25 1/16	Pence to 1 rouble
Copenhagen	,,	18·42 – 46	18·42 – 46	Kronors and öre per £1
Stockholm	,,	18·43 – 47	18·43 – 47	
Christiania	,,	18·43 – 47	18·43 – 47	
Vienna	,,	24·38 – 42	24·38 – 42	Crowns and hellers per £1
Trieste	,,	24·38 – 42	24·38 42	
Zurich and Basle	,,	25·50 – 55	25·50 – 55	Francs and centimes per £
Madrid	,,	43 3/16 – 43 5/16	43 3/16 – 43 5/16	Pence to 1 peso
Cadiz	,,	43 3/16 – 43 5/16	43 3/16 – 43 5/16	
Seville	,,	,, ,,	,, ,,	
Barcelona	,,	,, ,,	,, ,,	
Malaga	,,	,, ,,	,, ,,	
Granada	,,	,, ,,	,, ,,	
Santander	,,	,, ,,	,, ,,	
Bilbao	,,	,, ,,	,, ,,	
Zaragoza	,,	,, ,,	,, ,,	
Genoa, Milan, Leghorn	,,	25·68¾ – 25·75	25·70 – 25·77½	Lire and centesimi per £1
Venice	,,	,, ,,	,, ,,	
Rome	,,	,, ,,	,, ,,	
Palermo and Messina	,,	,, ,,	,, ,,	
[2] Lisbon	90 dys. date	49⅜ – 49½	49¼ – 49⅜	Pence for 1 milreis
[2] Oporto	,,	,, ,,	,, ,,	
Calcutta	demnd.	1·4 – 1·4 3/32	1·4 – 1·4 3/32	Shilling and pence to 1 rupee
Calcutta and Bombay	30 dys. sight dcnt. paper	1·31 5/16 —	1·31 5/16 —	
New York	demnd.	49¼ – 49⅜	49¼ – 49⅜	Pence for $1

[1] *Financial Times*, 19th September, 1911.
[2] Payable in legal currency.

of exchange, and so notorious is this amongst those engaged in international trade that the price at which exporting houses can sell their foreign bills is looked upon as an unerring test of the credit which they enjoy amongst their neighbours."

A few words are necessary to explain the table on page 221. With regard to Holland, for instance, the quotation, showing the equivalent of the English sovereign, is in florins or guilders, and stivers, the latter being five-cent pieces. With Belgium the quotation is in francs and centimes, with Germany in marks and pfennigs, with Scandinavia in crowns and öre, with France and Switzerland in francs and centimes, with Austria in crowns and hellers, and with Italy in lire and centesimi. With Spain the rate of exchange is given in pence for one peso, and with Portugal in pence for one milreis. The Russian Exchange is the price in pence for one rouble, and the United States in pence for one dollar.

The table which has been given is not only known as the Course of Exchange, but also as the London Course of Exchange, and it sets out the prices at which upon the average bills can be obtained in London for the purpose of liquidating debts due in foreign countries. But if the daily papers are examined it will be seen that there is another table, giving the Foreign Rates of Exchange, and this states the rates at which bills payable in London and drawn on this country can be purchased at the various foreign centres. It will be noticed that a comparison is always made with the preceding quotation, so that the variations can be noticed at once. The table on the opposite page shows the Exchange on London.

The rates shown are those prevailing at the places named for cheques and bills on London, and are cabled from those centres daily. These rates should not be confused with the Course of Exchange already given, which is drawn up in London.

It will be noticed that most foreign centres quote on London in their currency. With regard to Calcutta, Lisbon, etc., as they quote us in sterling we do the same (*vide* Course of Exchange).

It is an advantage to have the rates of exchange on London stated in the same terms as those quoted abroad, as this facilitates comparison between rates current abroad and those current here. But there are differences. We quote Amsterdam in guilders (or Dutch florins) and stivers, but Amsterdam quotes us in florins

Exchange on London.[1]

	Latest quotation.	Previous quotation.
Paris, cheque	25·17½	25·16½
„ Bank Rate	3 p.c.	3 p.c.
„ Market Discount	3–3⅛ p.c.	3–3⅛ p.c.
Brussels, cheques	25·36	25·34
Berlin, sight	20·48	20·48½
„ Bank Rate	4 p.c.	4 p.c.
„ Market Discount	4⅛ p.c.	4 p.c.
Vienna, sight	24·13¼	24·13¾
Amsterdam, sight	12·09¾	12·09¾
Rome, sight	25·44	25·41
Madrid, sight	27·40	27·39
Lisbon, sight	49¾d.	50d.
St. Petersburg, 3 Months	93·97½	93·97
Alexandria	97⅛	97 5/32
Bombay, T.T.	1s. 4 1/16d.	1s. 4 1/16d.
Calcutta, T.T.	„ „	„ „
Hong-Kong, T.T.	1s. 9½d.	1s. 9 1/16d.
Shanghai, T.T.	2s. 4 9/16d.	2s. 4⅜d.
„ 4 months	2s. 5⅛d.	2s. 5 3/16d.
Singapore, T.T.	2s. 4 3/32d.	2s. 4 3/32d.
Yokohama, T.T.	2s. 0⅜d.	2s. 0⅜d.
„ 4 months	2s. 0 5/16d.	2s. 0¼d.
Buenos Ayres, 90 days	48¼d.	48 5/32d.
Monte Video, 90 days	51 1/16d.	51⅛d.
Rio de Janerio, 90 days	16 7/32d.	16 7/32d.
Valparaiso, 90 days	10 19/32d.	10 19/32d.

and cents. The stiver has ceased to be Dutch money of account for very many years, and bills on Holland are drawn in florins and cents. Russia quotes London in roubles to £10, whereas London quotes Russia in pence to the rouble. Spain, again, quotes London in pesetas to the £1, whereas in the opposite course the quotation is pence to the peso. And the United States takes the dollar and the pound as the basis of calculation, whilst London quotes in pence to the dollar.

The letters T.T. which appear against some of the above rates in the Exchange on London mean " Telegraphic Transfer," which is a cabled authority from one bank to another to pay a certain amount to a particular person. This method of remittance is slightly dearer than purchasing a sight bill, but Telegraphic Transfers are being used on an increasing scale between this country and the United States, as well as with India.

[1] *Financial Times*, 19th September, 1911.

High and Low Exchange.

In dealing with foreign exchanges, the terms "high" and "low" are used with the greatest frequency, and they are calculated to mislead, since they express the exact converse of their ordinary meaning. For example, a rise in the French Exchange means a fall in the value of the French currency, and is therefore against that country. If a draft has to be purchased on Paris, it is advisable to get a high rate because more francs are obtained for the pound sterling. If, however, a draft is being sold on that city, the lowest rate must be obtained, the rule to be observed being "buy high and sell low."

Favourable and Unfavourable Exchanges.

These terms, favourable and unfavourable, are also used very frequently in respect of the foreign exchanges. They are used to express the idea of gold being imported into or exported from a country. For example, the rate of exchange is said to be favourable to this country when it is such that it tends to approach the point at which gold will be imported from abroad. On the other hand, it is said to be unfavourable when the rate is such that gold is about to be exported instead of the international differences being settled by the transfer of bills of exchange. On the slightest consideration it is clear that in practice there must be great fluctuations in the exchanges. If they were always unfavourable to a country, one thing only could happen, and that would be a gradual withdrawal of gold until the whole had absolutely departed. This is a most unlikely thing to happen. If there is to be a continuance of mutual intercourse between nations, it must follow naturally that the exports of the one must equal the imports from all the others, and in the end the two sides of the balance sheet must agree. This is the accepted axiom with reference to commercial commodities, but it is not confined to them. England, for instance, has a large amount of capital invested in different countries, and on these investments interest has to be paid. Goods are sent from a country so indebted and bills are drawn upon London. This represents an indebtedness on the part of England. But if the country exporting goods has to pay interest upon investments, the bills may be eventually cancelled by the foreign dividend payer handing over to the foreign exporter the amount due and

thus cancelling the bill. The illustration just given puts the whole matter in the very simplest fashion, and such a thing is extremely unlikely to happen in actual practice. But the same end is attained in the multiplicity of transactions, even though there is a transference of bills from country to country in a general liquidation. It has been shown in a previous chapter how a general settlement can be arrived at in the case of cheques for all amounts through the medium of the Clearing House. In international exchanges London occupies a position which is exactly analogous to that of the Clearing House in the case of bankers.

It has been pointed out in the last paragraph that if the course of exchange was always unfavourable to a particular country, there could be but one result, namely, it would eventually be denuded of the whole of its gold. Of course such a state of things would be most disastrous. On the other hand, if the course of exchange was always favourable and the country became absolutely flooded with gold, the result would be most disadvantageous, since there could not be opportunities at hand which would allow of a profitable use being made of it. Since London is the centre of financial transactions in connection with the foreign exchanges, it is necessary to notice the action of the Bank of England in regard to this matter, the Bank being, as is well known, the holder of the reserve gold of the country. When the reserve of gold has reached a high level, the rate of discount is lowered, and at once the inflow of gold is arrested. On the other hand, when the reserve has sunk to a low level, and there is a chance of its being reduced still lower, the rate of discount is raised, and immediately the advantage that is offered of a higher interest being paid upon investments attracts gold from abroad and puts a stoppage to its being exported. These oscillations of the pendulum have the desired effect, and periodically, although the exact time may be short, a normal condition is arrived at and the par of exchange is restored.

Short and Long Exchanges.

One other matter must be noticed in connection with the table of the Course of Exchange which is quoted on a previous page. Upon an examination of that table it will be seen that mention is made in some cases of two different rates, namely, short and long

rates (generally three months), the difference in the latter being for interest allowed to the buyer.

As between two near countries the rate of exchange for bills on demand or at sight will be the same. If the sight rate in London on Paris is Fr. 25·20, that quoted in Paris on London will be the same. Consequently, £100 will purchase a bill in London for 2,520 francs, and 2,520 francs will purchase a bill in Paris for £100.

The long rate is the price of a bill payable a certain time (generally three months) after the date of purchase, and in fixing the price, allowance is made for the fact that the recipient of the bill may wish to realise it by discounting. The principal consideration in the long rate, therefore, is interest in the country where a bill is payable. Secondly, the cost of the bill stamp will be another constituent of the long rate. Then we have the element of risk. This is very slight, but it nevertheless has to be taken into account. The interest in respect of the long exchange is based upon the bank rate ruling in the foreign centre for commercial bills, and upon the market rate of discount in the case of bank bills. If the bank rate changes, the long rate will alter, rising and falling with each alteration in the interest.

It should be noted that where a country quotes in its own currency, the long rate is lower than the sight rate; and where a quotation is made in the currency of another country, the long rate is higher than the sight rate. Therefore, in the Course of Exchange already given, the sight rate London on Paris is 25·20, and the long rate is 25·41¼, the latter being higher because we quote in French currency.

With regard to the allowance for contingencies already referred to, this is higher for inferior paper than for good bills. It is barely noticeable, however, in the long exchange upon any particular country; and as the quotations in the Course of Exchange are for reliable bills, we need not here take the question of contingencies into account when dealing with long rates. Of course, should credit at any particular centre be considerably disturbed, the element of risk will at once be taken into careful consideration.

Let us take some simple examples of the working of sight rates and long rates. Given the sight rate and the rate of interest in the country where the bill is payable, we can find the long rate.

If sight rate London on Paris is 25·20 and the discount rate in Paris is 3 per cent., a three months' bill on Paris in London will be

issued at the rate of exchange of 25·39 (disregarding the foreign bill stamp)—

Sight Rate	25·20
3 months' interest at 3 per cent. per annum	·19
	25·39

The above may be elucidated by the following remarks. If a French bank in London issues a sight bill on Paris it receives the amount in sterling at once, and as the Paris branch of that bank has to pay the bill at sight, fewer francs will be given per pound than if the Paris branch were not called upon to pay the bill for three months. The following example of remittance by sight and long exchange should be noted—

A of London pays £100 for a sight draft on Paris at the exchange of 25·20, therefore A obtains a draft for		Fr. 2,520
B of London pays £100 for a three months' draft on Paris at the exchange of 25·39 and obtains a draft for ..	Fr. 2,539	
B's correspondent at Paris discounts the draft, when the rate of interest is 3 % p.a.		
Interest at 3 months is	19	
Proceeds of draft		= Fr. 2,520

Therefore, in the above simple example, the ultimate cash value of the draft at the sight rate and the long rate is the same.

It may happen occasionally that something should be allowed for considerations of risk as has been stated previously. This point, however, has been omitted in our working, for the sake of simplicity. Generally speaking, we may say that the two methods of remitting by short and long exchange come to practically the same. Any difference would be only very slight.

Let us now look at the matter from the foreign point of view.

If we take the same sight rate as in the foregoing instance of London on Paris, and the rate of discount in London is 4 per cent.,

a three months' bill will be issued in Paris on London at the rate of 24·95—

Sight Rate		25·20
Three months' interest at 4 per cent. per annum		
	(say)	25
		24·95

It may at first sight appear perplexing, when we compare the above long rate with that of London on Paris. The difficulty disappears, however, when we state the matter in the following way—

(*a*) *London on Paris.* If a pound sterling is paid immediately for francs payable three months hence, more francs will be obtained than if payment of francs were required at once. As we have already seen, therefore, the long rate London on Paris is 25·39 (*i.e.*, 25·20 + 19 c.).

(*b*) *Paris on London.* If francs are paid in Paris at once for a pound sterling, and the pound is not required to be repaid for three months, fewer francs will obviously be paid for each pound than if immediate payment were desired. Therefore, the three months' rate Paris on London will be 24·95 (*i.e.*, 25·20 – 25 c.) as shown in the above example.

Although, as has been stated, long rate bills are those which have generally a period of three months to run, there are plenty of bills dealt with which have a much shorter currency before maturity, perhaps twenty or thirty days. In such a case a rate is charged which is known as a " tel quel " rate (generally abbreviated into " t.q. " rate), and this is calculated upon the basis of the long rate so as to correspond with the term for which the bill is current.

CHAPTER XIV

FLUCTUATIONS IN RATES OF EXCHANGE

We have now to consider the influences that cause fluctuations in the sight exchange rate, and, as a result, in the exchange taken as a whole; since the long rate, as we know, is based upon the sight rate.

The rate of exchange is the combined effect of a variety of influences. Those influences are too complex to allow of their being accurately gauged. The whole question hinges upon the supply and demand of bills, as we are aware; but it is necessary for us to consider the main circumstances that lead to the creation and sale of bills, together with the reason of the necessity of purchasing bills for remittance purposes.

We will take the case of the circumstances under which bills are drawn on London. The following schedule will show the various headings in a convenient form—

BILLS ARE DRAWN ON LONDON IN RESPECT OF—

(1) *Trade Influences*, namely:	Exports of goods.	The greater the supply the more the rate of Exchange is against us.
(2) *Stock Exchange Influences*, namely:	Loans to foreign governments, etc.	
	Securities of various kinds sold in London for foreign account—or purchased abroad for account of London.	
(3) *Banking Influences*, namely:	Bankers' investments in bills.	
	Documentary Credits.	
	Travellers' Credits.	
	Arbitrage and speculative exchange transactions.	

The above headings constitute the sources of the supply of bills on London, and we may summarise the demand by means of the headings on next page.

BILLS ARE REQUIRED ON LONDON IN RESPECT OF—

(1) *Trade Influences*, namely:	Imports, Freights, Commissions, and Brokerages.	The greater the demand the more the rate of Exchange is in our favour
(2) *Stock Exchange Influences*, namely:	Securities purchased in London for foreign account, or sold abroad for account of London.	
	Interest on loans, and on foreign securities held here.	
(3) *Banking Influences*, namely:	Bankers' investments in bills.	
	Credits to cover drafts issued against documentary and blank credits.	
	Arbitrage and speculative exchange transactions.	

Let us, for purposes of comparison, combine each of the corresponding headings in the above schedules.

(1) *Trade Influences.*—This is, of course, the chief influence we have to deal with. Exporters in foreign countries are continuously drawing on London against their exports to us of food and other commodities. Importers also are likewise remitting bills on London to pay for various manufactured goods that they import from us. Unusually heavy imports tend to bring the exchanges against a country, and abnormal exports tend to produce an opposite effect. We know that bills on London find a ready market in all important financial centres, but it should not be assumed that they will be remitted here direct by the country drawing them. They may easily get into circulation elsewhere, being bought up by any country which is indebted to London, and which is desirous of liquidating its liability by means of negotiable instruments instead of any movement of money. Such a method has the beneficial effect of steadying the rates of exchange between London and the country which buys the bills, whereas otherwise the exchange would have been in our favour.

Bills on London have a higher reputation than those on any other centre, and are consequently more saleable. London has a rate of exchange with every country that has an established commerce, and there is hardly any financial operation of importance where the rate of exchange on London does not form the basis of

the transaction. When America imports coffee from Brazil, the settlement is effected mainly by drafts on London. When America ships goods to Russia, the settlement is usually effected by a draft drawn upon the Russian customer in sterling, and marked " Payable in London." Merchants in the East drawing upon American customers, generally effect payment in a like manner. When Europe imports wheat from Canada, the settlement is principally effected by drafts on London. As regards countries that have no direct exchange relations with America, when such countries import American goods, New York draws mainly on London for account of the particular nation concerned, which covers us by remitting mainly cheques on London, or English bills. Bills of exchange representing transactions of a world-wide nature flow to London where they are set off one against another. In fact, London is often referred to as the world's clearing house.

It is only a natural consequence, that the position of the Bank of England, of the English Money Market, and the tendencies of the rates of exchange on London, are attentively followed by practically every branch of international trade. The Weekly Return of the Bank of England is telegraphed to many countries, and is published there for the guidance of those interested. The rate of exchange on London is everywhere the principal and international rate.

The influence of the balance of trade on the exchanges cannot be gauged. It is sometimes supposed that if the exports of a country exceed its imports, the difference must be settled by payment in gold. Now the imports of Great Britain are many millions in excess of the exports, as a glance at the Board of Trade Returns will show. This does not imply that we become less wealthy thereby, neither does it prove that our payments and indebtedness to the foreigner are greater than his payments and indebtedness to us. The difference is so great that payment in gold would be out of the question. Great Britain conducts the greater part of the world's carrying trade, in respect of which many millions are earned annually. She also is a creditor nation in regard to huge sums that have been invested in foreign countries and in our colonies. In connection therewith, she is entitled to receive very large sums for interest on such investments. Instead of being paid in gold for the sources of income above indicated, goods are received. In other words, imports are received in excess of exports. Those countries that are

creditor or carrying countries on an appreciable scale may, and do, import more than they export; but a nation which is neither the one nor the other, cannot do so without increasing its indebtedness to other countries. Russia, for instance, must export goods to cover her imports, and, in addition, export further goods in payment of the interest on her large loans. When there is not a sufficiency of products to cover both requirements, recourse is had to further loans.

The index to the rate of exchange between two countries is rather measured by the amount due for immediate payment, than by the balance of trade. Indeed, the balance of trade may be said to be an unknown quantity, since we cannot place any real reliance upon Board of Trade Returns. Imports and exports are often declared in a manner that is far from being exact.

There are imports and exports that are not included in Board of Trade Returns, namely, large quantities of foreign bonds, the value and volume of which cannot possibly be estimated. It is known, however, that they have been considerably on the increase for several years past, and by reason of their constant changes and magnitude, it is practically impossible to arrive at a correct estimate of the international indebtedness of any two countries. If we send a number of German bonds to Paris we reduce our liability to France, and lessen Germany's liability to us, concurrently increasing her debt to France. These operations are known as "invisible exports and imports." This term also includes services rendered by one nation to another, which ultimately have to be paid for; consequently they exercise the same influence on the exchanges of the country rendering the service, as an export of goods by that country would. For example, the amount in freights earned by our mercantile marine (estimated to be about one hundred million sterling annually), is a very large item which does not appear in the Board of Trade Returns.

The state of the market as to exchanges is affected by the varying seasons of the year, and certain particular causes may lead to a rapid fluctuation in quotations. The New York Exchange is a good illustration. The most prominent factor in connection with it is the shipment of cotton and wheat to this country, and the effect is to cause the exchanges to be against us during the last four months of the year.

Included under the heading of "Trade influences" are commissions and brokerages amounting to a considerable sum annually, charged to foreign clients by the large number of foreign loan agents, stockbrokers, produce brokers, agents, etc.

(2) *Stock Exchange Influences.*—Stock Exchange operations often affect rates—particularly those of New York and Paris.

There is an account running between the chief financial cities, in respect of various international securities that are freely dealt with on the chief European "Bourses" (*i.e.*, Stock Exchanges). The account as between London and New York is of very large dimensions. If transactions of any dimension take place between these two cities, the cheques and demand drafts drawn in payment have the effect of influencing the exchanges either favourably or adversely.

When a foreign loan has to be floated, London is the financial centre to which all eyes are turned. In fact, Lombard Street has sometimes been termed the world's loan office. If the loan is successfully floated, the money borrowed in London by another country has to be remitted in some form or other. Bills are drawn on the loan agents, and the result is a fall in the rate of exchange. Goods are frequently purchased in England with the money obtained by the loan and then exported to the borrowing country, and this tends to affect the exchanges as a trade influence. The payment of heavy war indemnities also exercises an enormous influence. In 1871 when France had to remit to Germany the war indemnity of two hundred millions sterling, its effect was felt in all parts of the world for a very long period.

In addition to foreign Government loans, many foreign railways, harbour boards, municipalities, and other undertakings, obtain funds in London. All operations of this description tend to turn the exchanges against us. Conversely, the millions that have to be remitted to London for interest on the huge sums we have invested abroad is an exchange factor that is considerably in our favour, and it becomes apparent in January and July when the half-yearly interest coupons are due for payment.

(3) *Banking Influences.*—Banking influences, again, are not without considerable effect. There is generally a profit to be made out of the various bill transactions, and foreign bankers are not at all slow to take full advantage of the same. Indeed, it is

quite a common practice for financial houses abroad to invest their funds in bills drawn on London, and to regard them as liquid assets, seeing that it is always possible to convert them into cash at short notice. They are looked upon as a convenient kind of investment, because they yield a certain amount of interest between the date of issue and maturity. In fact, bill transactions are always based upon the price of such documents on demand, less the three months' interest. The rate of interest is fixed by that which rules where the bill is payable, so that bills are bought with the view of obtaining the higher rate of interest in the foreign country. As a rule, the difference of the rate between two countries is divided between the buyer and the seller.

With regard to travellers' credits, it is sometimes supposed that this is an item of very little consequence. On the contrary, during the tourist season, the effect is one of some importance ; for at that time, large numbers of persons travel to the Continent, taking with them Letters of Credit and Circular Notes, which are, in effect, bills upon London. Just as bankers are always willing to invest in English bills, so are they always ready to take up circular notes, as a considerable profit can be made out of them. The person who cashes a circular note generally gets a fixed price for the same —the banker watches the market so as to obtain a favourable moment for settlement. During the tourist season, remittances from Italy, Switzerland, the South of France, and places of a like nature are mainly composed of drafts on London against Letters of Credit, and this fact tends to affect the Money Market generally and to turn the rates of exchange against this country.

The item of " Credits " appears in the table of the demand for bills, as the money withdrawn from this country in respect thereof has practically all to be paid back.

Another influence is arbitrage dealings. This name is applied on the English Stock Exchange and the French Bourse to the calculation of the relative simultaneous values of any particular stock on the market, in terms of the quotations on one or more other markets, and to the business founded on such calculations. In the strict sense arbitrage may be defined as a traffic consisting of the purchase or sale on one Stock Exchange, and simultaneous, or nearly simultaneous, re-sale or re-purchase on another Stock Exchange of the same amount in the same stocks or shares.

Government stocks, British Consols excepted, are the chief subjects of arbitrage, but there are other branches, dealing with bullion, coin, and bills. The last of these falls within the province of bankers. In practice the operations are of an extremely intricate character, and require the most careful watching of the market, as the slightest variations may be of the utmost moment.

It is when remittances have to be sent abroad that the question of arbitrage becomes so important, when, in fact, there is the anxiety to adopt the cheapest possible method of settling differences. Thus, a London house has to remit to Paris. Bills on Paris may be bought, but it is often cheaper to conduct the business in another way, by buying bills upon another country, for example, Belgium or Switzerland, and then utilising them for the purposes of liquidation. Paris often acts as the arbitrator to the exchanges between London and several of the Latin countries. Similarly, Berlin acts in the same capacity as between Denmark, Norway, and Sweden. This roundabout method of settling international debts, that is, by purchasing bills which are not drawn upon the creditor country, is sometimes known as "circuitous arbitration."

The following are examples of the method of working these circuitous arbitrations.

1. A merchant in London owes a sum of money in Paris. Which method of payment will be most advantageous to him, a direct exchange, or a circuitous remittance from London to Venice, from Venice to Hamburg, and from Hamburg to Paris, the exchanges being as follows: £1 = 24·6 francs; 19 francs = 10 Hamburg marks; 1 mark = 4 lire of Venice; and 55¼ lire = £1?

At first sight this may appear a somewhat formidable question, but the difficulty should disappear if we apply the chain rule—with which we are already acquainted.

We may, therefore, state—

$$\begin{aligned} ?\ \text{Francs} &= £1. \\ £1 &= 55\tfrac{1}{4}\ \text{lire}. \\ 4\ \text{lire} &= 1\ \text{mark}. \\ 10\ \text{marks} &= 19\ \text{francs}. \\ = \frac{221 \times 19}{4 \times 4 \times 10} &= \underline{\text{Fr. } 26{\cdot}24.} \end{aligned}$$

Therefore, as the circuitous exchange is £1 = Fr. 26·24 as above,

and the direct exchange we are told is £1 = Fr. 24·6, the circuitous route is the more advantageous method of remitting, since £1 secures Fr. 26·24 payable in Paris, but the direct exchange only secures Fr. 24·6.

2. If I buy three months' Bills upon Hamburg at 20·50, selling them again in Amsterdam at 58·75, and have the proceeds transmitted to Paris at 206, the proceeds to be invested in the purchase of three months' Bills upon Madrid at 500 francs for $120, which Bills are transmitted to me in London and sold at 40d. per dollar, what profit or loss per cent. would this circuitous exchange produce irrespective of charges ? [1]

This example is a little more advanced than the previous one, but no difficulty should be experienced when we apply chain rule as before.

?	=	£100.
£1	=	20·50 M. (3 months).
M. 100	=	58·75 Florins.
Florins 100	=	206 Francs.
Francs 500	=	120 $ (3 months).
$1	=	40d.
Pence 240	=	£1.

$$= \frac{20{\cdot}50 \times 58{\cdot}75 \times 206 \times 120 \times 40}{100 \times 500 \times 240} = £99\ 4s.\ 9d.$$

Therefore, there is a loss of 15/3 per cent. on the transaction.

Brokerage, commission, and stamp duty have not been introduced into the above two examples, for the sake of simplicity.

Other Foreign Exchange Influences.—Up to the present we have dealt only with those influences that affect the rates of exchange as regards the supply of, and the demand for, bills. Rates of exchange are, however, affected by influences arising through no variations in the volume of supply and demand. It need hardly be stated that one of the most serious of these influences is the state of the currency of a country. The Mint Par of Exchange is calculated upon the supposition that the state of the currency is normal. If any changes take place, or if events happen which alter the condition of the currency, the exchange is quickly affected. It is well known how the currencies of a few of the countries of Europe have been depreciated, and also those of several South American States.

[1] Tate's *Modern Cambist*, 24th Edition.

Between 1797–1819 Bank of England notes were depreciated, and this had the effect of turning the rates of exchange against this country. At one time Russia was, and at the present time many of the South American countries are, suffering from the over-issue of paper money, which means a lessening of its value. The issue or the retention in use of coins which are either debased or too much worn has just the same kind of effect. In such countries gold does not circulate freely, and if it is asked for it can only be obtained by paying a premium in paper money. In other words, a less amount of gold is equal to a greater amount of paper money, and from the difference between the two the percentage of the gold premium may be obtained.

The preceding remarks have been made on the assumption that the world is at peace. A condition of war changes everything, and the foreign exchanges have been subjected to great fluctuations since the outbreak of war in 1914. The nature and extent of these fluctuations cannot be properly dealt with until peace has been declared and the world once more reverts to normal conditions.

CURRENCY

CHAPTER XV

THE FUNCTIONS OF MONEY

Origin of Money.

It is impossible to frame a definition of "money" which shall apply to all circumstances. Sometimes the term is used in a narrow sense to denote coins, at another time to denote "currency" in its widest sense, *i.e.*, coins, notes, cheques, bills, and any credit instruments which may perform the functions of money.

In its original sense the term "money" may be widely applied to any substance, *whatever its form*, which by custom or legal enactment becomes the "medium of exchange" in any community.

From the dawn of rational intelligence, man has found it necessary to supply his wants either by force of arms or by peaceful negotiation. Among primitive races, the exchange of commodities took the form of direct barter, *i.e.*, men gave commodities which they did not want, in exchange for those which they required, without the aid of money. Even in the simplest communities this was a cumbersome and inexact method of trading. From earliest times, therefore, men felt the need of some substance or commodity in general esteem which would serve—

(1) As a medium of exchange.

(2) As a measure of value, and obviate the innumerable calculations necessary in measuring the value of each commodity in terms of every other.

It is a common error to identify money with the gold, silver, and other metals in general use to-day as coinage, which are only the survival of the fittest. Many commodities have been employed at different times to perform, more or less satisfactorily, these two functions of money, *e.g.*, oxen, skins, sheep, shells, cloth—these are but a few examples of primitive money, possessing in but small degree most of the essential qualities of an ideal currency.

(3) As a standard of value for deferred payments. As commerce grows and becomes more complex traders find it necessary to borrow and lend. Here again, it is desirable that the commodity borrowed or lent should be comparatively steady in value. It is obvious that if a person requires a loan for five years, it is important that the commodity borrowed should be worth substantially the same at the end of the period as it was at the beginning. Money possesses this quality of stability of value to a high degree, hence if a man requires capital, for instance, to purchase corn, he does not borrow the actual corn, but the money required to purchase it. It is therefore customary to measure debts in terms of money, which has come to fulfil a third function, viz., a standard of value for deferred payments. Upon this foundation the whole of the credit system of modern times has been built.

Qualities of Ideal Money.

These have been summarised by Prof. Jevons as follows[1]—

1. Utility and value.
2. Portability.
3. Indestructibility.
4. Homogeneity.
5. Divisibility.
6. Stability of Value.
7. Cognisability.

The relative importance of these qualities depends on the particular function of money which is being considered.

Utility and Value.

In the first instance money was a substance which possessed a use apart from its function as currency. This quality of money is known as utility, and formed the basis of its value in relation to other commodities, and of its function as a medium of exchange, being readily accepted in exchange for valuable goods.

In the modern sense the utility of money is this essential quality of being accepted without question wherever it circulates in exchange for commodities.

It is necessary to distinguish between the *utility* of money (which cannot be accurately measured) and its *value*, which can only be

[1] *Money*, cap. 5.

expressed in terms of other commodities, and is dealt with in another chapter.

Other Qualities.

As a medium of exchange it is obvious that *portability* in money is important, and this involves large value in small bulk. For instance, we could not carry on our everyday transactions with Chinese " cash " without the aid of a wheelbarrow. On the other hand, the substance must not be too valuable.

The medium of exchange must not be easily destructible or subject to deterioration such as corn.

The substance of which it is composed must be *homogeneous*, *i.e.*, of a uniform standard of quality throughout.

It must be *capable of division* without loss of value so that the total value of the parts is equal to that of the whole. A diamond cannot be divided in this way, and many unequal bargains must have resulted from the use of cattle as money.

Comparative Stability of Value has already been mentioned. As a standard of value for deferred payments, it is essential that money should possess this quality in a high degree, as every change in the value of money (expressed in terms of commodities) is an injury to the community and acts as a restriction on trade.

Lastly, money must possess *cognisability*, so that it can be readily distinguished from other substances.

Gold and Silver as Money.

No single substance has ever been discovered which fulfils all these functions and at the same time possesses the qualities of ideal money. In practice most civilised nations have adopted gold and silver as their principal coinage, with baser metals, such as bronze or nickel, to serve as small change.

A *coin* is simply a piece of metallic money of definite shape, whose weight and fineness are certified by the integrity of the design impressed on its surface.

It must be admitted that even gold and silver fall very far short of an ideal currency. They certainly possess utility and value, homogeneity and divisibility in marked degree. As regards indestructibility and cognisability gold possesses these qualities in a large measure, but silver to a much less extent, as may be gauged

from the number of worn coins in circulation in England, and from the counterfeiting of florins, and other coins, many of which would deceive an expert.

All the metals are, along with other commodities, subject to the laws of supply and demand, and, therefore, fluctuate considerably in value. Gold and silver have, however, always been comparatively scarce, and also coveted for their beauty and suitability for use as ornaments and other works of art, and also for hoarding. Their value has thus remained comparatively steady over short periods, but over long periods great changes have taken place in the values of both metals, especially in that of silver. On the whole their value has greatly depreciated from a variety of causes —economies brought about by systems of credit, discoveries of fresh sources of supply, and in the case of silver, a falling off in the demand, due to demonetisation, *i.e.*, its discontinuance as standard money, by many of the great nations. The stocks of the metals in existence in various forms are, however, large enough to prevent any very violent fluctuations.

CHAPTER XVI

THE VALUE OF MONEY

Quantity Theory of Money.

THE expression " value of money " is often used to denote several distinct ideas.

Money acts as the measure, or common denominator, of value of all other commodities. The value of money, *i.e.*, in the sense of what it will exchange for, cannot be expressed in terms of itself, but, under normal circumstances, only in terms of commodities in general, *i.e.*, the value of money is simply its *purchasing power*.

Like that of every other commodity, the value of money depends upon the laws of supply and demand. Other things being equal, an increase in the supply of money will tend to lower its value, *i.e.*, general prices will rise, while an increase in the demand will have the reverse effect.

This simple statement is modified under complex modern conditions by two factors, viz.—

(*a*) Economies in the use of metallic currency.
(*b*) Rapidity of circulation.

Economies in the Use of Money.

Although a metallic coinage forms the essential basis of all well-regulated currencies, upon this foundation has been built up a huge superstructure of credit, which is transferred or circulated by means of paper money in various forms—notes, cheques, bills, etc., which are called " instruments of credit," and are " promises to pay " in metallic currency. The amount of credit does not bear a fixed proportion to the gold or silver basis, but depends on the state of trade, prices, public confidence, the financial and political situation and so on. This mass of credit instruments is usually regarded as so much addition to the currency, and therefore affects the general level of prices in the same way.

Rapidity of Circulation.

The rapidity of circulation of money also affects its value. If we increase the number of exchanges which each coin effects, this will tend to produce the same effect as an increase in the supply.

The quantity theory may, therefore, be stated briefly in its final form—

Other conditions remaining the same, the value of money varies inversely as the quantity in circulation, multiplied by its rapidity of circulation.

It is necessary to add that in practice, the influence of money on prices is by no means as direct as the above law might lead one to infer. There are so many modifying influences, and even so high an authority as Sir Robert Giffen considered that it is the range of prices which helps to determine the quantity of money in use, and not *vice versâ*.

Variations in the Monetary Standard.

As already mentioned, the monetary standard varies in purchasing power over long periods of time.

These fluctuations are usually measured by means of "index-numbers," which are constructed by various methods, and represent, in popular language, the average prices of staple commodities for a certain year or term of years as being 100. Any rise or fall in general prices is estimated accordingly.

For instance, between 1850 and 1870 the index numbers compiled by Dr. Sauerbeck show a considerable rise, and as money wages also rose, it is estimated that a fall of at least 20 per cent. in the monetary standard took place during that period. This fall in the value of money is generally admitted to be due to the effect of the gold discoveries, and is dealt with in a subsequent chapter.

Metallic Value.

The term "value of money" is sometimes used to denote the value of the metal contained in a coin. This *metallic value* is often erroneously termed its *intrinsic value*, and is expressed in terms of the standard money of the country. In this sense the value of an English shilling is that of the weight of silver which it contains, calculated at the market price of the day = about $4\frac{1}{2}$d. (1912).

Nominal Value.

Coins also possess a *nominal value, i.e.*, the legal ratio at which a coin passes current. (See "Token Coins.")

Price of Money.

Lastly the term "value of money" is often loosely used to denote the *percentage* which it will command in a given market. If, for instance, the rate at which the London banks will lend to the bill-brokers has gone up, it is said that "the value of call-money has increased," or that "call-money is dearer." In this sense the expression "price of money" would be more correct, and is measured in terms of the interest which it will produce.

Mint Price of Gold.

Care must be taken not to confuse the *value of gold* with its *mint price.* As we have seen the value of *standard money* is expressed in terms of commodities and general purchasing-power. The mint price is simply the number of coins which can be produced from a given weight of bullion. In England the mint price of gold ($\frac{11}{12}$ths. fine) is £3 17s. 10½d., or, more correctly, 3·89375 sovereigns.

Monetary Standard and Unit of Value.

The standard of value must (according to Prof. Jevons) consist of "a fixed quantity of some concrete substance, defined by reference to the units of weight or space."[1]

This *unit of value* is not necessarily made into an actual coin, for which purpose it may be too great or too small, but if it is not minted, the actual coins must be fractions or multiples of the unit. Thus the Anglo-Saxon unit of value was a pound weight of silver, which was obviously much too heavy to be coined.

In France at the present time, the monetary unit is the *franc*, but the silver franc is not standard money, *i.e.*, it is only a token coin, and the smallest gold coin is the five-franc piece.

The unit of value need not be the "money of account," *i.e.*, used in book-keeping, although in nearly all countries, as a matter of convenience, one unit now performs both functions.

In England during the eighteenth century the standard gold coin was the guinea, while the "money of account" was the pound. If

[1] *Money*, cap. 8.

an article was priced by a dealer at ten guineas and bought " on credit," the transaction would be entered in the books as " ten pounds ten shillings."

Where there is only one *standard* metal, the currency is said to be " monometallic."

If there are coins of two standard metals, circulating at a fixed ratio side by side, the system is said to be " bimetallic."

CHAPTER XVII

VARIOUS SYSTEMS OF LEGAL TENDER

Definition.

In its monetary sense, legal tender is the particular kind of money which a creditor is legally bound to accept in satisfaction of a debt.

As regards metallic money. Prof. Jevons enumerates five distinct methods of legal tender[1]—

(1) Currency by weight.
(2) Unrestricted currency by tale.
(3) Single legal tender system.
(4) Multiple legal tender system.
(5) Composite legal tender system.

Currency by Weight.

This was the primitive method of paying and receiving money. It existed among the ancient Romans and the Hebrews; and at the present day in China gold and silver currency still pass by weight. This system is necessarily employed where a portion of the currency has become worn or otherwise depreciated in weight.

Unrestricted Currency by Tale.

Under this system coins of various metals are allowed to circulate unrestricted, according to their relative values. It exists to a limited extent in countries where foreign coins, such as the Spanish and Mexican dollars, form the chief currency.

Single Legal Tender.

This system has obtained where money of only one metal is coined. The inconvenience of settling all transactions, large and small, in coins of one metal, is apparent. In England before and after the Norman Conquest, although "legal tender" in its modern sense was unknown, silver was the sole legal currency. In most countries with a single legal tender, the coinage has been supplemented by the importation of foreign coins to remedy the inconvenience.

[1] *Money*, cap. 9.

Multiple Legal Tender.

Under this system the *standard* money consists of two (or more) metals, which circulate at a ratio to one another which is fixed by law. If both coins are unlimited legal tender, this ratio must approximate to the relative market value of the two metals, otherwise the operation of Gresham's Law will tend to drive the undervalued metal from circulation. This happened in England in the eighteenth century, when silver was exported, and again in France at the beginning of the nineteenth century when gold was driven from circulation.

The multiple legal tender may also consist of a metallic and a paper currency. If the latter is inconvertible and depreciated, it will drive the metals from circulation. We may find examples of this in many of the South American republics. The subject is dealt with more fully in another chapter.

Composite Legal Tender.

Owing to the inconveniences attaching to other systems, most nations have been forced to adopt the composite legal tender system, whereby the standard money consists of coins of one metal (usually gold), which is legal tender to an unlimited amount, while coins of other metals, such as silver, bronze or nickel, are reduced to the level of token coins, whose ratio to the standard money is fixed by law. In order to prevent melting down or exportation for profit, the metallic value of the subsidiary coinage is always less than the legal (or nominal) value, and the coins are legal tender only to a limited amount.

Paper money may, so long as it is convertible, also be made legal tender under this system.

In England we have a composite legal tender system of metallic currency, side by side with the convertible notes of the Bank of England, which are also legal tender except at the Bank of England or its branches, and the Currency Notes issued by the Treasury, which are legal tender to any amount, and are payable in gold on demand at the Bank of England.

CHAPTER XVIII

GRESHAM'S LAW

Preliminary Remarks.

ONE of the most important duties and prerogatives of a civilised State is that of maintaining a proper system of currency. It is generally conceded nowadays that this duty, for various reasons, cannot properly or safely be delegated to private bodies or persons. Failures to carry out this primary function have been due chiefly to two causes—

(1) " In every country of the world, I believe, the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have by degrees diminished the real quantity of metal which had been originally contained in their coins."[1]

(2) Ignorance of the principles of currency has been the second cause of failure, which has often been brought about through the operation of Gresham's Law, which was first enunciated by Sir Thos. Gresham in the reign of Queen Elizabeth, and may, in its simplest form be stated as follows, viz., *that bad money drives out good money, but that good money can never drive out bad money.*

Where the Standard Currency is of One Metal.

Here we have the simplest case, and the Law may be more specifically expressed as follows: *If there is a standard currency of only one metal, the coins of which vary in weight or quality* (*but circulate at the same nominal value*) *the worse coins will tend to drive the better from circulation, but the better can never drive out the worse.*

Bullion dealers, goldsmiths, and other money experts secure a profit by melting down or exporting the new heavy-weight coins, and pass the worn or " sweated " coins (*i.e.*, those reduced in weight by illegal methods) back into circulation. This operation is known as " picking " or " garbling " the coinage. The state of the English gold currency prior to the passing of the Coinage Acts of 1889–91 affords a very striking example of the former operations. The loss on light coins formerly fell on the innocent holder, who would

[1] Adam Smith's *Wealth of Nations*, Bk. I, cap. 4.

naturally do his utmost to pass them on and retain the heavy ones. The only remedy for this state of things is for the Mint to maintain all standard coins as far as possible at standard weight and fineness by withdrawing all the light coins at the national expense.

Where there is a Standard Currency of Two Metals.

The same principles apply where there are standard coins of two metals, circulating together at a fixed ratio, which is based on their relative market value. As the latter is constantly fluctuating, the fixed ratio will sooner or later exhibit a marked discrepancy as compared with the market ratio, and the metal which is overvalued will tend to drive the other from circulation, unless a fresh legal ratio is adopted.

The most extreme instance of this occurred in Japan, in the middle of last century, when the treaty of 1858 was opening up the country to European traders. Gold and silver coins were circulating at a ratio of about 1 : 3½, while the ratio of the metals in Europe was about 1 : 15½. The Europeans made large profits by buying up and exporting gold coin, which gradually disappeared from circulation.

A similar experience has befallen the United Kingdom at various periods. For example, prior to the reign of James I, silver was overvalued as compared with gold, and consequently the greater part of the gold coin, being undervalued, had disappeared from circulation. Early in the reign of James I, a readjustment in the legal ratio took place, but in spite of this, as silver was still overvalued, the exportation of gold coin continued.

We may thus formulate the first extension of Gresham's Law as follows: *Where standard coins of two metals circulate together at a fixed ratio, the metal which is overvalued will tend to drive the other from circulation.*

Where there is a Paper Currency.

Gresham's Law applies with equal force where a standard metallic currency circulates side by side with paper. If the paper currency is convertible into coin at the will of the holder, and is subject to proper regulation, any redundance will adjust itself. Where, however, through financial stress, or other causes, payment is suspended, or where the paper is inconvertible in its origin, there is a great danger of over-issue. In this case the paper becomes redundant,

and cannot be withdrawn, and the "paper price" of gold rises above the mint price, *i.e.*, there is a "premium on gold." Gold, being undervalued as compared with paper, disappears from circulation.

At the present day the principal currency of many of the South American States consists of inconvertible paper money issued in excess, which has driven gold from circulation. Moreover, the prices of commodities (including gold) being measured in the depreciated paper, have risen in proportion to the over-issue of paper.

We have then this final extension of Gresham's Law: *Where an inconvertible paper circulates side by side with a standard metallic currency, and the former is issued in excess, the paper will tend to drive the metal from circulation.*

The regulation of paper money and suspension of specie payments are dealt with in subsequent chapters.

CHAPTER XIX

THE ENGLISH COINAGE

Standard and Token Coins.

COINS are of two kinds, viz., standard and token money.

The value of a standard coin is that of the metal contained in it. So long as standard coins remain at their full weight, they may be treated as so much bullion without appreciable loss. The design of such coins is merely a certificate of their weight and fineness.

On the other hand, the value of token coins as metal is less than the value attached to them by law or custom, and they bear a fixed ratio of exchange to standard money.

Legal Tender.

The present English metallic currency has been in force since 1816, when the minting of standard silver was abolished.

This system, which is one of composite legal tender, has already been briefly alluded to.

The Coinage Act of 1870 (33 Vic. cap. 10) enacts that throughout the United Kingdom

(*a*) Gold coins are legal tender to any amount.
(*b*) Silver coins ,, ,, ,, up to 40s.
(*c*) Bronze coins ,, ,, ,, up to 1s.

All of these may be issued only by the London Mint.

By subsequent Royal Proclamation, however, the gold coins issued at the Mints of Sydney, Melbourne, and Perth (Western Australia) were declared legal tender.

In England, in addition to the coinage, Bank of England notes are legal tender for sums above £5 except at the Bank or its branches.[1] In Scotland no notes are legal tender, and in Ireland only Bank of Ireland notes in payment of revenue.

The Mint.

With the exception of the Australian gold coins, already mentioned, the whole of the coinage of the United Kingdom, together with that

[1] See note at end of chapter.

of some of the Colonies and dependencies, issues from the Mint on Tower Hill, London.

In Anglo-Saxon times, mints were established all over the country, under the control of responsible officials, and as coining was a Royal prerogative, it was a common practice down to the seventeenth century to set up a temporary mint wherever the sovereign happened to reside. It was not until after the great recoinage of silver at the end of that century that coinage in England and Ireland was concentrated at the Mint inside the Tower of London. The Dublin Mint was closed in 1696, but the Edinburgh Mint remained until 1815. In 1811 the Mint was transferred from the Tower to Tower Hill, and in 1850 the Government assumed complete control of its operations.

The Coinage Acts.

The standard of fineness of gold coins has remained unchanged at 22 carat (*i.e.*, 22 parts of fine gold and 2 parts of alloy) since 1600.

The Coinage Act of 1816 (56 Geo. III, cap. 68) enacted that 20 lbs. (troy) of gold of the above standard should be coined into 934½ sovereigns, which is equal to a mint price of £3 17s. 10½d. per oz., and that every pound (troy) of standard silver ($\frac{37}{40}$ths fine) should be coined into sixty-six shillings, which is equal to a *nominal* value of 5s. 6d. per oz.

These provisions are re-enacted in the Coinage Act of 1870, which, with the Acts of 1889 and 1891, contain most of the vital provisions under which the metallic currency is regulated.

Gold Coin.

In theory, any person is entitled, subject to certain restrictions, to take gold of standard fineness to the mint, and have it coined free of charge at the rate of £3 17s. 10½d. per oz. In practice, however, all gold bullion intended for the Mint, is bought by the Bank of England, in accordance with the Bank Charter Act of 1844 (§ 4) at the rate of £3 17s. 9d. per oz., and the Mint deals exclusively with the Bank.

The unit of value is the sovereign, containing, at standard weight, 123·27447 grains of gold, $\frac{11}{12}$ths fine. The standard weight of the half-sovereign is 61·63723 grains. These are the only gold coins in

general circulation, although £5 and £2 pieces are minted on special occasions, and are legal tender.

As absolute accuracy in minting is impossible, a *remedy allowance* of 2 parts in 1,000 of fineness is permitted, and in weight of $\frac{2}{10}$ths of a grain in the case of the sovereign, and $\frac{3}{20}$ths for the half-sovereign.

As coins are liable to abrasion in circulation, it is enacted that sovereigns and half-sovereigns are legal tender so long as their weight does not fall below 122½ and 61⅛ grains respectively.

Formerly the loss on light gold had to be borne by the last holder, and as the banks naturally avoided paying in light coins to the Bank of England as much as possible, the operation of Gresham's Law was fast reducing the gold currency to the level of a token coinage. Much injustice resulted from the failure of the Government to provide a proper currency at the national expense, and the loss often fell on those least able to bear it.

After considerable agitation, the Government, by passing the Coinage Acts of 1889 and 1891 provided for the calling-in of all Pre-Victorian gold coins, and the acceptance, through the channel of the Bank of England, of all light gold coins with a deficiency of not more than 3 grains, at their full face value. Under the operation of those Acts, the light gold was rapidly replaced by full weight coins, and the coinage has since been maintained in a satisfactory condition, as may be judged from the following figures—

In 1888 about 46 per cent. of the sovereigns and 71 per cent. of the "halves" in circulation were light.

In 1910, out of £45,250,000 worth of coins weighed at the Bank, only £2,700,000 was withdrawn as light, and the loss by deficiency in weight was £28,969, the smallest amount since 1904, the total of gold coin in the United Kingdom at the end of 1910 being estimated at £113,000,000.[1]

Silver Coins.

When the gold standard was adopted in 1816, silver was reduced to the level of a token currency which is not intended for large payments, and as the nominal value of the coins *as money* is 5s. 6d. per ounce, which is far above the market value of silver, the inconveniences which arose during the eighteenth century owing to the

[1] Report of Deputy-Master of the Mint, 1910.

operation of Gresham's Law, and the disappearance of full-weight silver coins, are now rendered impossible.

Of the silver coins provided for in the Coinage Act, only the crown, half-crown, florin, shilling, sixpence, and threepenny piece are now minted. The double florin, although still in circulation, is no longer coined, while the fourpenny, twopenny and penny silver pieces are only issued as Maundy Money.

The shilling consists of 87·27272 grains of standard silver ($\frac{37}{40}$ths fine) and the weights of the other silver coins are exactly proportionate.

There is no minimum legal weight for silver coins, which often circulate so long as the stamp is recognisable. Worn and defaced coins are withdrawn in limited quantities through the agency of the Bank of England, co-operating with the other banks. Silver coins bearing date prior to 1817 are not now legal tender.

No one has a right, of course, to demand at the Mint silver coins in exchange for bullion, new silver coins being issued as required through the Bank.

The average market price of silver for 1910 was $24\frac{11}{16}$ pence per oz., and thus the profit on the silver coinage, known as *seigniorage*, is considerable. In 1910 it amounted to £1,503,939, and the rate of profit to 165·49 per cent.[1]

Bronze Coins.

These consist of a mixture of copper, tin, and zinc, and are also a token currency, only intended for small change.

It is not generally known that two new halfpennies weigh over 30 grains more than a new penny, the standard weight of the penny being 145·83333 grains, and that of the halfpenny 87·5 grains. The farthing weighs just half as much as the halfpenny.

Currency Notes.

On the outbreak of war in 1914, the Government authorised the issue of Currency Notes of the nominal value of £1 and 10s., and gold was practically withdrawn from circulation. These notes have taken the place of the gold coinage, and are legal tender to any amount. For a short period, postal orders were likewise legal tender.

[1] Report of Deputy-Master of the Mint, 1910.

CHAPTER XX

ADOPTION OF THE GOLD STANDARD IN THE UNITED KINGDOM

The Silver Standard.

BOTH the "pound" and the "penny" have been the basis of the English system of currency since Anglo-Saxon times, when the pound was the unit of value, and consisted of a pound weight (troy) of standard silver ($\frac{37}{40}$ths fine). This standard of fineness is the same as that of our present silver coinage, and continued until the reign of Henry VIII. In this reign a debasement of coinage took place, which reached its maximum in Edward VI's reign. In 1551 the pound consisted only of 3 oz. fine silver and 9 oz. alloy. Although the old standard of fineness was re-established by the express command of Elizabeth, it was long before commerce recovered from the blow dealt by the first Defender of the Faith. The silver unit was abolished in favour of the gold sovereign in 1816.

The silver pound was, of course, never made into a coin, but was divided into 240 silver pennies, each weighing 24 grains, or one "pennyweight." The penny, however, suffered a progressive diminution of weight in various reigns until in 1601 it weighed only $7\frac{3}{4}$ grains.

The shilling was first coined in the reign of Henry VII, of the value of twelve silver pence, and weighed 144 grains ($\frac{37}{40}$ths fine), almost twice the weight of the present day coin. Subsequently both its weight and fineness were reduced, until in 1549 it consisted only of 80 grains of silver of the fineness of 1 part in 3. Three years later, however, the weight was increased to 96 grains (subsequently reduced to $92\frac{3}{4}$ grains) while the old standard of fineness of all the silver coins was restored, and has continued practically unaltered down to the present day. In 1816 the weight was finally fixed at 87.27272 grains.

Introduction of the Guinea.[1]

Gold coins of the value of 20s. were first coined in the reign of Henry VII, and circulated along with the silver currency. Owing,

[1] See *Dictionary of Political Economy* (Palgrave), vol. ii, p. 270.

however, to the debasement by Henry VIII, and the continual overvaluation of silver prior to the reign of James I, gold coins were in the latter reign exported in large quantities. To prevent this exportation, it became necessary to readjust the ratio of gold and silver coins.

In 1661 the value of the gold coins was again raised by Royal Proclamation. Gold coins issued prior to 1619, and valued at 22s. were to pass current at 23s. 6d., and those issued subsequent to 1619 and passing current at 20s. were to circulate at 21s. 4d.

In 1663 some attempt at reform of the currency was made, and new gold coins valued at 100s., 40s., 20s. and 10s. were issued. The new 20s. pieces were called " guineas," from the fact that most of the gold employed in their manufacture was obtained from Guinea, and until 1816, they remained the principal gold coins.

From 1670 to 1695 the silver was reduced by fraudulent means to such a state that the legal value of the guinea could not be maintained, and it was commonly rated in the depreciated silver currency at from 22s. to 30s. This is an example of what is known as a " premium on gold," which occurs when the alternative circulating medium, whether silver or paper money, becomes depreciated.

The state of the standard coinage was having such a prejudicial effect on trade that the re-coinage of silver was taken in hand, and meanwhile, by various proclamations, the rating of the guinea was gradually reduced, until in 1698 the value was fixed at 21s. 6d., which is generally regarded as the first step towards the bimetallic standard, rendered possible by the re-coinage of silver.

Even at this rate, gold was overvalued as compared with the new full-weight silver coins, which were therefore, by the operation of Gresham's Law, exported in large quantities.

Report of Sir Isaac Newton.

This subjected the country to great inconvenience and expense, and as a result, Sir Isaac Newton, the then Master of the Mint, issued his famous Report of 1717. In it he pointed out that, taking the relative market values of gold and silver in Europe, the value of the guinea was about 20s. 8d., so that at 21s. 6d. it was overvalued to the extent of 10d., leading to the result mentioned. In consequence of this report the value of the guinea was fixed at 21s. (at which it was to be unlimited legal tender) with the intention

of subsequently making such further reduction as might be deemed necessary. However, no further reduction was made in the rating of the guinea, which remained at 21s. until its abolition in 1816.

The Double Standard.

During the period 1717–1775 England possessed a full bimetallic system. Gold and silver were both accepted freely at the Mint for coinage, the legal ratio between the two metals being fixed by law at about $15\frac{1}{2}$ to 1, and both metals were unlimited legal tender.

The result of the continued overrating of the guinea at 21s. was soon apparent. No one would bring silver to the Mint to be coined, because it was worth more as bullion, whereas, on the other hand, gold, being overvalued, poured into the country. The full-weight silver coins, being undervalued, were used for export. Consequently in time the currency came to consist principally of gold, and as only worn or clipped silver remained in circulation, it was practically degraded to the level of a token coinage. This state of affairs led to so much injustice, that in 1774 it was decreed that the payment for sums over £25 in silver should be made by weight, thus practically abolishing the unlimited legal tender of silver.

The Gold Standard.

The inconveniences attaching to both the silver standard (with gold also in circulation) and the double standard, under which the country had been flooded with the overrated metal, whichever it happened to be, were great. The export of silver in the eighteenth century had necessitated frequent re-coinage at great expense, owing to the scarcity of small change, and in the closing years of that century, a thorough inquiry was held as to the state of the currency. Under the influence of Lord Liverpool the Coinage Act of 1816 was passed—"An Act to provide for a new Silver Coinage, and to regulate the currency of the Gold and Silver coin of this Realm."

This act legalised the Single Standard, which had, as we have seen, for some time been an accomplished fact. Henceforth the standard coinage was to consist only of gold. The guinea was abolished, and the sovereign became the unit of value and also replaced the "pound" as the money of account. The cumbersome method of reckoning in pounds and paying in guineas was done away with.

Silver was reduced to the level of a token coinage, deriving its

nominal value from its relation to the sovereign, thus preventing, once and for all, the possibility of gold driving the silver from circulation, or the reverse.

As this Act gave effect to Lord Liverpool's dictum that all rich nations naturally prefer gold for their standard money, it is interesting to note that since 1872 most of the civilised countries have practically adopted the gold standard. Even in the countries comprising the Latin Union the free coinage of silver has been suspended, and thus in the stronghold of bimetallism one of its main principles, viz., free coinage of both metals, has been abandoned

CHAPTER XXI

BIMETALLISM

Primitive Forms of Bimetallism.

FROM the fourteenth century onwards most of the countries of Europe possessed a primitive bimetallic currency. Economic laws affecting the circulation of money were little understood, and in view of the inconvenience and hardships inflicted on British trade by the scarcity of gold or silver, and sometimes of both metals, legislation on currency matters was chiefly aimed at securing an adequate supply of the precious metals, and at preventing the operations of those who profited by their export, owing to the different ratios of value prevailing in the various markets of Europe.

The characteristics of this period until the discovery of America in 1492 may be summed up as follows [1]—

"(1) A period of commercial expansion, necessitating an increasing currency and advancing prices.

"(2) A period of stationary production of the precious metals, necessitating a struggle among the various states for the possession of these metals.

"(3) A period of endless change in the ratio between gold and silver, necessitating continual revision of the rate of exchange."

These characteristics have been quoted at length, as they explain the motives of monetary legislation, groping feebly and blindly for a remedy, during the "dark ages" of English currency. Moreover the third characteristic applies with equal force to European monetary history down to the time when the adoption of a single standard by a nation, set that nation free from the endless series of fluctuations.

Although England possessed a silver standard currency, at any rate down to 1717, yet the concurrent circulation of gold coins rendered that system bimetallic in a primitive form, and, down to the end of the seventeenth century, exposed her, along with all the nations of Europe, to a continual ebb and flow of one or other of the

[1] W. A. Shaw's *History of Currency*, cap. 1.

precious metals. This ebb and flow were due, in the main, not to the legitimate requirements of trade, but to the operation of Gresham's Law, unperceived at that time, whereby the full-weight coins of the undervalued metal disappeared from circulation, either by being melted down or exported, leaving only the worn, clipped or sweated coins for home use.

In vain penal laws were enacted against these practices. In vain the relative values of gold and silver coins were altered by legislation or Royal Proclamation from time to time. So long as it was profitable to melt down or export heavy coins of the undervalued metal, this practice necessarily continued, as, apart from the operations of goldsmiths and bullionists, any balance of national indebtedness was necessarily settled in one or other of the precious metals, and merchants naturally chose the cheaper form of remittance.

It was not until the eighteenth century that any advance was made towards the modern system of regulating the flow of bullion by means of the rate of discount.

By various acts of legislation, England led up to a full bimetallic system in 1717, which was also a failure, and left her with a principal currency of gold and a depreciated one of silver. These events and the final abandonment of bimetallism for the gold standard in 1816, have been already detailed.

Thus it is not a matter of speculation, but of actual history, that a bimetallic system in England, in spite of frequent readjustments of the legal ratio, had utterly failed. Not only so, but the continual ebb and flow of the precious metals often left a depreciated residuum of coins of *both* metals.

The failure of bimetallism when adopted as the policy of individual nations has led in modern times to combination in groups, and to the advocacy of international action among the principal nations of the world in order effectively to maintain the double standard, and in the opinion of bimetallists, remedy the evils which the demonetisation of silver is said to have inflicted.

The Modern Theory.

The modern theory of bimetallism is based on the assumption of a fixed *international* ratio of gold and silver, adopted by the principal civilised nations.

In the modern sense a full bimetallic system must be constituted as follows—

(1) Gold and silver must both be standard money.

(2) They must both be unlimited legal tender at a ratio fixed by law.

(3) Both metals may be brought to the Mint to be coined in any quantity.

In face of the bitter experience of the countries of Europe, probably no authority would now advocate a bimetallic system based on the *independent* action of one or two nations.

The advocates of international bimetallism base their case principally on two hypotheses—

(1) That if the principal nations adopted a fixed ratio, no one could secure a profit by melting down or exporting one metal in preference to the other, and, therefore, the practice would cease.

(2) That a bimetallic standard would keep fluctuations in general prices within narrower limits.

Events Preceding the Latin Union.

As we have seen, England, by adopting the gold standard in 1816, once and for all demonetised silver as a principal currency. By this action, she left the other nations to bear the brunt of fluctuations in gold and silver which had played such havoc with her currency. These fluctuations were in future concentrated in a smaller area, and therefore might be expected to be more violent. Let us briefly take the experience of France as typical.

The Experience of France.

In 1785 the ratio of gold to silver had been altered to $15\frac{1}{2} : 1$, and in 1795 the franc was adopted as the unit of currency.

After the disastrous experiment of issuing *assignats* had failed, inflicting untold misery on the nation, and driving gold and silver from circulation, France laid the foundations of her modern monetary system in 1803 by the law of 7–17 Germinal An. XI, which reaffirmed the ratio of gold and silver established by the edict of 1785, viz., $15\frac{1}{2} : 1$, and provided for a coinage in accordance with the decimal system which had been adopted.

[1] During the period 1820 to 1850, when the market value of silver was always *below* the legal value, and it was therefore profitable to import silver—at the French Mint alone silver coins of the value of £127,500,000 were issued, as against only £19⅓ millions of gold coins.

During the period 1850 to 1866, the position was reversed. As a result of the great gold discoveries in California and Australia, the market value of silver was always *above* the legal ratio. In this period gold coins to the value of about £292½ millions were issued from the French Mint, and only £1,315,532 in silver coins. The figures speak for themselves.

The Latin Union.

In the latter period a premium on silver was established, and this metal disappeared almost entirely from circulation, being replaced by gold. Owing to fears of a deluge of gold, international action was sought, and in 1865 the Latin Union was formed between France, Belgium, Switzerland and Italy. Greece joined in 1868.

The Convention came into force on 17th August, 1869, and was intended to last for fifteen years. It was based on the French Monetary Law of 1803. Its originators sought to lessen the evils resulting from the fluctuations of gold and silver, and had in view a much wider combination of nations to render the measures adopted more effective.

Moreover, the convention instituted a uniform system of currency, whereby coins issued in any of the countries circulated freely in the others. The gold unit was the five franc piece, of the weight of 1·61290 grammes ($\frac{9}{10}$ths fine), the weight of the larger coins of 100, 50, 20 and 10 francs being proportionate.

The standard silver coin was the 5 franc piece weighing (in the ratio of 15½ : 1) 25 grammes.

All the above coins were made unlimited legal tender, and were intended to be freely minted.

To assist in preserving a stock of small silver currency, coins of 2 francs and under were reduced to the level of token money, pieces of 2, 1, ½ and ⅕ francs being issued, but the total amount of these subsidiary coins issued by any State was not to exceed six francs per inhabitant.

[1] The figures are taken from W. A. Shaw's *History of Currency*, cap. 3.

In 1867 and 1868 the 5 franc silver piece almost disappeared from circulation.

In 1867 at an international conference in Paris, eighteen States signified their preference for the gold standard.

As a consequence, the States included in the Latin Union were flooded with silver from other countries, especially from Germany and Holland, and in the same year (1867) the market value of silver, which from 1853 to 1866 had been above the legal value, fell below it, and in 1871 commenced its disastrous fall,—certainly disastrous to the Latin Union.

By 1876 the *market* ratio had dropped to 17·80:1, a greater change than had taken place for centuries.

It had already (since 1873) been found necessary to limit the coinage of 5 franc silver pieces, and in 1879 their issue was practically discontinued, this suspension being extended by the new Convention for six years, which took effect from 1880; and indefinitely until by unanimous consent the coinage of standard silver should be resumed.

In effect the bimetallic position was found to be untenable, and force of circumstances compelled the countries composing the Union to adopt what was practically a single gold standard.

Although the Latin Union has failed in its primary objects, its members derive considerable benefit from the convenience of an interchangeable currency, and the advantages of joint monetary action.

International Action.

In modern times, the adoption of a fixed ratio between gold and silver by all the great nations of the world has been the ideal aimed at by bimetallists. Isolated action by one or two nations has proved an utter failure.

The " battle of the standards " raged furiously in the last two decades of the nineteenth century, when the general level of prices was depressed, and the scramble for gold by the nations of the world, several of whom, notably Germany and the United States, had only recently adopted a gold standard, had, amongst other causes, led to an excessive appreciation of that metal.

Many of the bimetallic treatises of that time refer both to the serious effects of the fall of silver, due to its demonetisation, and to

the fear of a further appreciation of gold. These gloomy forebodings were dispelled by the discovery of the gold mines in South Africa, which are now the principal source of the world's supply. Since their discovery, a gradual rise in general prices all over the world has taken place, which is already the subject of official inquiry in several countries.

Whatever views may be entertained concerning the comparative stability of general prices under an international bimetallic system, the following facts may be deduced from the history of coinage.

(1) The modern monetary policy of the great nations renders improbable a return to bimetallism.

(2) The enormous increase in the rate of gold production in the last twelve years has been an important factor in the general rise of prices, and placed the last nail in the coffin of bimetallism. The level of prices is largely determined by the amount of *standard* money in circulation. It is therefore reasonable to suppose that if bimetallism had been universally adopted, prices would have risen proportionately. If the additional silver had been retained by the great nations instead of being thrown out of circulation, the excessive quantity of standard gold and silver money would have caused an inflation of general prices, beside which the recent rise would be insignificant. Such a rise would bring untold hardship to those with fixed incomes and wage-earners generally. Contracts would be upset, to the great disadvantage of creditors, and that element of uncertainty introduced into commercial transactions which is so paralysing to trade.

Apart from the Latin Union there is still a lingering affection for bimetallism in certain quarters in the United States of America. When the gold standard was adopted in 1900, the standard silver dollar still remained unlimited legal tender, thus exposing the country to the operation of Gresham's Law. In the Gold Standard Bill the following somewhat inconsistent clause appears: "That the provisions of this Act are not intended to preclude the accomplishment of international bimetallism, whenever conditions shall make it expedient and practicable to secure the same by concurrent action of the leading commercial nations of the world, and at a ratio which shall insure the permanence of relative value between gold and silver."

The millennium of bimetallists seems even further off than when this Act was passed, and unless the supply of gold should eventually prove insufficient for the world's principal metallic currency, there seems little chance of a reversion to a system which has proved so disastrous to those nations which have adopted it.

CHAPTER XXII

EFFECT OF THE GOLD DISCOVERIES

Preliminary Remarks.

In view of the general rise in prices during the first decade of the twentieth century, coincident with the enormous increase in gold production in South Africa, already referred to, it is impossible to avoid the conclusion that this rise, at least in part, is due to the increased output of gold. The law which establishes this relation has already been mentioned as the " quantity theory of money," viz., that, other things being equal, the value of money varies inversely as the quantity in circulation, multiplied by the rapidity of circulation. It is now necessary to consider how this law actually works.

Effect on Prices in the Gold-producing Countries.

Imagine that in a country already possessing some export and import trade, large discoveries of gold are made. Assuming that the volume of trade remains the same, the value of gold will tend to fall, *i.e.*, prices in general will rise. This rise will stimulate imports and check purchases. In consequence, the total value of imports would tend to exceed the total value of exports, and the balance, after allowing for monetary obligations, such as loans, etc., must ultimately be discharged in gold. The adverse balance will, therefore, be corrected by the export of gold.

If the mines continue to yield a profit, a great influx of foreign capital and labour will take place, and imports will be further stimulated by the requirements of the increasing population, and so long as the supply of gold is maintained, wages will rise, and prices will continue at their high level. Moreover, the increased cost of labour and of all materials will tend to check production in the country itself. Consequently it will be cheaper to import many commodities previously produced in the country.

Thus the effect of gold discoveries is briefly as follows—a great rise in prices, increase in value and volume of imports, the correction of the adverse balance by the export of gold, a great rise in wages, and all materials, and a check to the production of all commodities except gold.

Effect on Other Countries.

The rise in general prices in the gold-producing countries will inevitably spread, in greater or lesser degree, to other countries. In these days of rapid communication by cable and telegraph, and of improved methods of transit, any marked difference in the *general* level of prices tends to adjust itself, although, of course, there are always other influences at work which affect *relative* prices, such as variation in supply and demand, tariffs, wages, etc. The great centres of commerce are the first to feel the effects of the influx of gold, and there we should expect to find the greatest rise in general prices.

Modifying Influences.

There are other influences at work which tend to counteract the effects of increased supplies of gold. They may be summarised as follows—

(1) The immense quantity of gold in existence.
(2) Demand for gold for use in the arts, etc.
(3) Increased demand for coinage purposes on the adoption of a gold standard.
(4) Demand due to increase in trade.

(1) World's Stock of Gold.

The amount of gold in existence, the small proportion which the annual production bears to it, and the small amount of wastage, account for its stability of value as compared with other metals, in spite of the enormous increase in production during the last sixty years. The world's stock of gold cannot even be approximately determined, but was computed by Prof. Soetbeer to be 9,500 tons in 1880. From 1881–1910 (inclusive) about 9,500 tons were produced; thus the present stock cannot well be less than 18,000 tons,

valued at (say) £2,200,000,000, while the average *annual* world's production for 1900–1910 was about £73,500,000.

(2) Use of Gold in the Arts, etc.

Gold in use in this form, *i.e.*, as ornaments, etc., does not, of course, directly affect general prices of commodities, although it must always be regarded as a *possible* source of supply for coinage purposes. From Prof. Soetbeer's figures we gather that in Europe and the United States alone from 1831 to 1880 about £258,800,000 of gold was used for industrial purposes other than for coinage, *i.e.*, about 32·55 per cent. of the total production.

In the report of the Director of the United States Mint, the amount of new gold converted to these uses *throughout the world* from 1890–1910 (inclusive) is estimated at £305,600,000, *i.e.*, about 25·48 per cent. of the total production.

From the earliest ages, moreover, the East has absorbed enormous quantities of the precious metals for hoarding and for use as ornaments, etc., and has been an important factor in steadying the values of gold and silver.

(3) Increase in Demand for Coinage Purposes.

This has been by far the most potent factor in absorbing much of the additional gold produced during the last forty years. Had it not been for the additional demand for coinage on the part of nations adopting a gold standard, the rise in prices in recent years would undoubtedly have been more pronounced, when we consider how enormously the supply has increased.

Great reforms in the currencies of Germany, the United States, Italy, Austria-Hungary, India and other countries, have helped to absorb the additional supply. Many of the continental nations have also been piling up huge war chests, and strengthening their bank reserves, in both of which gold is the principal metal.

(4) Demand Due to Increase in Trade.

The demand for gold created by an increased volume of trade will also tend to keep prices down. Other things being equal, the greater the volume of trade, the more coin will be required.

Production and Distribution of Gold.

The following table compiled by Prof. Soetbeer shows the increase in the estimated world's gold production—

[1] ANNUAL AVERAGE.

	Tons.	£ Millions.		Tons.	£ Millions.
1493–1520	5·80	·74	1871–1875	167·98	21·29
1601–1620	8·39	1·06	1876–1880	169·69	21·51
1701–1720	12·62	1·60	1881–1885	152·52	19·33
1801–1810	17·50	2·22	1886–1890	167·00	21·17
1841–1850	53·89	6·83	1891–1893	214·00	27·12
1851–1855	194·39	24·64	——	—	—
1856–1860	202·80	25·71	1890–1899	——	39·2
1861–1865	182·20	23·10	1900–1910	——	73·4
1866–1870	188·87	23·95			

The figures for the last two periods are extracted from the report of the Director of the United States Mint, whose estimate of the production and distribution of gold since 1890 is of interest. Special stress is laid on the increasing demands of India during the last few years.

The following table appears in that Report [2]—

GOLD PRODUCTION AND DISTRIBUTION.

	10 *years*, 1890–1899. Dollars.
Industrial Arts	570,000,000
Banks and Treasury of United States	260,000,000
European Banks	686,800,000
Banks of Canada, Australasia and South Africa	59,700,000
Total	$1,576,500,000
Other banks, circulation, private holdings, etc.	383,500,000
Total	$1,960,000,000

	11 *years*, 1900,–1910. Dollars.
Industrial consumption	958,000,000
Absorption of India	433,000,000
,, Egypt	146,000,000
Bank of Japan	69,000,000
Conversion fundings of Argentina and Brazil	343,000,000
Banks of Mexico	28,500,000
,, and Treasury of United States	726,800,000
,, ,, Canada	85,700,000
,, of Australasia and South Africa	95,600,000
,, of Issue, Europe	863,200,000
Total	$3,748,800,000
Other banks, circulation, etc.	288,200,000
Total	$4,037,000,000

[1] Palgrave's *Dictionary of Political Economy*, vol. ii, p. 226.
[2] See *Banker's Magazine*, June, 1912.

Index Numbers.

The movements in general prices are reflected in the tables of *index-numbers* which are compiled by various authorities. If a general rise of prices, extending over a considerable period, takes place, a fall in the standard of value may be suspected. It is estimated that a fall of at least 20 per cent. in the English standard took place between 1850 and 1870, due chiefly to the effect of the gold discoveries in California and Australia. A progressive fall in prices set in during the next twenty-five years, with a subsequent recovery, due partly to the discovery of gold-bearing reefs in the Transvaal, which is now the principal source of supply, the production from this source alone during the four years 1908–11 being nearly £128,000,000. These fluctuations are illustrated by the following table of index-numbers compiled by Dr. Sauerbeck representing the combined prices of forty-five commodities—

	Average.
1867–1877	100
1878–1887	79
1890–1899	66
1901–1910	73

The rise in prices during the last decade is well spread over the various *groups* of commodities, with the exception of "Sugar, coffee and tea," which fell from 63 to 48, but rose to 66·2 for 1911, and we are therefore justified in assuming that the upward movement is largely due to causes affecting prices as a whole. When we consider that the average annual production of gold from 1900 to 1910 was about £73,500,000, as compared with only £39,200,000 for 1890–1899, it is impossible to avoid the conclusion that the increase of the circulating medium, including both metallic money and the superstructure of credit, will very largely afford an explanation, and that a considerable fall in the standard of value has taken place.

It is necessary to add that, before a general rise or fall in prices can be deduced from similar movements in the index number for any given period, it is essential that all, or most of, the groups of commodities should exhibit a similar movement, as a violent rise or fall in one or two groups, due to special causes, may seriously affect the general average.

CHAPTER XXIII

THE RELATIONS BETWEEN MONEY, CREDIT, AND PRICES

The Nature of Credit.

In explaining the " quantity theory of money," and the effect of an increase in the amount of metallic money in circulation, little has been said about " instruments of credit."

" Credit " is not usually regarded as an *addition* to national capital, it is simply the deferring of a payment, and for our purpose the term is used to denote a *present right* to demand payment of a definite sum of money at some future date.

The importance of the part that credit plays in modern commerce is enormous. It has been estimated that nearly 99 per cent. of the wholesale transactions in England are effected without the use of metallic money, *i.e.*, they are effected by means of " instruments of credit," which are merely written documents recording the terms of the credits, and enabling the " rights " to be transferred from one person to another. Hence it has sometimes been argued that the amount of coin in circulation is comparatively unimportant. The correct view is the reverse of this, *i.e.*, the greater the superstructure of credit, the more important does the metallic basis become. Just as in the erection of a lofty building the strength of the foundations bears some proportion to its weight and height, so in modern commerce, the quantity of metallic money bears some relation to the amount of credit in existence. The proportion varies according to the country which is being considered (one being more or less highly developed than another) and according to the general state of trade. A highly organised commerce like our own requires a much smaller proportion of metallic money than, for instance, that of China.

Again, when commerce is active, and traders optimistic, the same quantity of coin will support a much larger volume of credit than when trade is slack, as, for instance, during the reaction which follows a period of over-production. In the latter case, over-trading has shaken public confidence and at the same time the credit afforded by bankers to commerce, and by merchants to each other is diminished.

Then again, an increase in the volume of wholesale transactions necessitates an increase in retail transactions, in which metallic money plays a larger part.

Lastly, all forms of credit are only so many " promises to pay " (written or implied) in coin, if required, except in countries where the principal currency is unconvertible paper, the effect of which is dealt with in a subsequent chapter.

To sum up, commercial credit transactions, bankers' credit obligations, convertible paper money, and other instruments of credit, are all theoretically payable in coin, and actually a certain proportion is always settled in this manner. The overwhelming majority of obligations are cancelled by mere book entries, *i.e.*, transfers of credit, but all credit ultimately rests on a metallic basis, and the solvency of a commercial community is intimately bound up with the provision of sufficient metallic reserves in order to maintain its credit unimpaired.

Influence on Prices.

Instruments of credit, such as bills, cheques and notes, are as effective as coin in providing a circulating medium of exchange, and, other things being equal, an increase or decrease in their amount will raise or depress the general level of prices in much the same manner.

Bankers' Advances.

It is true that the loans placed by banks to the credit of customers' accounts are distributed by means of cheques and bills, but the total volume of advances also exerts a very direct influence on a rise or fall in prices due to fluctuations in supply or demand, or to improved methods of production. If trade is brisk, a rise in price of a particular commodity or group of commodities frequently takes place. This acts as a stimulus to increased production, for which more capital is needed. This extra capital is often obtained by merchants and manufacturers from their bankers.

A rapid rise in some leading commodity often spreads to other groups of commodities, money is lent freely, and the level of prices is maintained. If bankers continued to lend freely, the rise would continue until the inevitable collapse took place, and it is largely by the *timely* restriction of advances by bankers to customers who

have borrowed freely that over-production, and the consequent period of stagnation and low prices, are prevented.

Thus we see that bankers' advances operate chiefly through wholesale prices.

It is important to note that except when advances are drawn out in the *banker's own notes* these loans are not a *creation* of credit, but only a *transfer, i.e.*, from banker to customer.

Bank Notes.

Bank notes which are convertible cannot be over-issued, in the sense of becoming redundant, and, therefore, their total amount is determined by the needs of the public, which vary with the state of trade. They cannot, therefore, *directly* influence prices to any great extent. In some countries—as in Scotland—they form the principal currency, and bankers' advances are often drawn out in this form under the Cash Credit system. The notes thus play an important part in a general rise of prices, but are not actually one of the causes of the rise. When a fall takes place, and trade becomes slack, the redundant notes are automatically presented and withdrawn from circulation. This quality of convertible paper money is known as " elasticity."

Inconvertible paper money does not follow this rule. Unless its issue is carefully regulated, the amount in circulation is only limited by the will of the issuer, and does not depend on the volume of trade. If issued in excess, an artificial stimulus will be given to prices, and if there is also a standard metallic currency, the operation of Gresham's Law will drive the metals from circulation. The inflated prices will, of course, be merely " paper prices " and the rise will continue so long as additional issues of paper money are made. Such over-issue has often been due to the requirements of the State for carrying on a war, or for internal purposes. The early monetary history of most of the New England States is a disgraceful record of over-issue of paper, which in some cases became depreciated to $\frac{1}{1000}$th of its face value.[1]

The ill effects of an over-issue of paper, causing stagnation of trade, and grave interference with contracts for the payment of money, cannot be over-estimated. This aspect of the question is dealt with more fully in a later chapter.

[1] Walker's *Money*.

Cheques.

The importance of the bank note as a circulating medium in the United Kingdom is now relatively small, and the cheque has become, especially in England and Wales, the principal instrument of credit. It is not too much to say that, without the cheque, the enormous volume of the trade of the United Kingdom could never be carried on. Other countries, especially the United States, are following our example, and on the continent the use of this convenient transfer of bank credit—for such it is in reality—is becoming more common.

As cheques economise the use of coin, and have (together with bills) almost superseded it for wholesale transactions, they are clearly an addition to the circulating medium. Some writers appear to draw a distinction, in this respect, between cheques which are presented for payment at once, and those which remain out for some time, treating only the latter as money. In both cases, the use of coin is economised in differing degrees, therefore all cheques are an addition to the currency, and affect prices in the same way.

If a man pays his baker's account by means of a cheque, the latter takes the place of coin. If the baker pays it in to his banking account, there is *one* economy of coin, but if he uses it in part payment of his miller's account, there are *two* economies—it is only a question of degree.

CHAPTER XXIV

THE FUNCTION AND LIMITS OF SPECULATION

Nature of Speculation.

THE large part which credit plays in modern commerce is necessarily accompanied by dangers which usually arise from an excess of speculation.

Practically all commercial transactions between traders possess an element of speculation, and the most enterprising nations have, by their speculative ventures, developed the natural resources of what are now some of the richest sources of production, and created fresh markets for their goods. The part which credit plays in assisting such transactions has been already described. When prices and credit are in danger of becoming inflated, owing to over-confidence, *i.e.*, when speculation has reached a proper limit, it is necessary to curtail the credit which alone makes such speculation possible. This may bring inconvenience or even failure to firms which have over-traded. They find themselves face to face with a collapse in prices, and their surplus goods are thrown on their hands, or on the market at a ruinous sacrifice. So far as the community is concerned, the contraction of credit will cause prices to fall to their normal level, and keep production within bounds.

Trade naturally ebbs and flows in this manner, and so long as speculation is restricted to genuine commercial transactions, and is kept within reasonable limits, its function is perfectly legitimate, and its effect on trade is, on the whole, beneficial.

The History of a Commercial Crisis.

The history of commercial crises is that of the abuse of credit, leading to excessive speculation. At such times traders and investors seem to throw prudence to the winds, and their increased profits lead to the employment of more credit than their position warrants. The bubble of inflation is sooner or later pricked by a slackening in demand, the effect of which in a crisis is heightened by over-production, by a precautionary raising of the rate of discount, and by the unwillingness of bankers to grant further accommodation.

The impending crisis is due to a general feeling among business men that they, or their clients, are unable to meet their obligations, and may be precipitated by a few actual failures. The state of the Bank of England "Weekly Return" may also aggravate the general uneasiness, as it is to some extent a gauge of the general position, and reveals the policy of the banks in strengthening their liquid resources. There is a general scramble on the part of business men for money to meet their obligations. It is here that the bankers can step in, and alleviate the panic by restoring general confidence. By lending freely to those whose position is sound, the banks enable them to tide over temporary embarrassment, and prevent a general collapse, while the "lame ducks" are necessarily left to their fate.

By further raising the rate of interest, unnecessary borrowing is discouraged, and supplies of loanable capital are attracted both from home and foreign sources.

Should these steps be fruitless in restoring confidence, and the supply of capital is still insufficient, the only remedy is the *creation* of a form of credit which will be universally accepted, *i.e.*, the suspension of the Bank Charter Act of 1844 and the issue of notes by the Bank of England against security, beyond the authorised limit.

Crises of the Nineteenth Century.

The crises of the nineteenth century have all been caused by excessive commercial or monetary speculation in some form, fostered in some instances by imprudent lending on the part of the banks, notably in 1857 and 1866, when the discounting of bills reached a height which, in comparison with the volume of trade, has probably never been exceeded.

The principal crises are dealt with in detail elsewhere, but it is useful to note the general causes which led up to them—

1810–11. Speculation in exports to South America
1825. Speculation in mining and other foreign investments.
1847. Immense outlays of capital on *fixed* investments and speculation in railway stocks.
1857. } Over-trading, supported by excessive discounts and
1866. } advances by banks. (Failure of Overend, Gurney & Co.)
1890. Speculation in South American stocks. (Baring Crisis.)
1914. The outbreak of the Great War.

American Crisis of 1907.

As we have had practically no experience of crises in the United Kingdom since 1890, when there was no general panic, it is instructive to note the causes and methods of allaying the American panic of 1907, which are ably summed up in the following extract from a paper read by Mr. D. M. Mason before the Institute of Bankers, "Our Money Market and American Banking and Currency Reform"[1]—

"Trade was active in America, and throughout the world there was considerable speculation going on in copper and Stock Exchange securities, all calling for money to finance such transactions. Crops were plentiful in America and required money to move them. All this world-wide activity, coming after a period of wars and destruction of capital, intensified the strain upon the world's capital resources. The chain could not stand the strain, and snapped at its weakest link, and the American panic followed. Crops were being hurried out of America. Railroads and other corporations were all anxious to sell their short-term notes and other securities in Europe. There was a comparatively light import trade movement either of goods or securities. There was a lack of elasticity in the currency. The rate of exchange fell below gold import point, and imports of gold commenced on a large scale. Credit dried up, and as a result speculation collapsed in America and runs on the trust companies and banks followed. The Bank of England raised its official rate of discount to 7 per cent., the highest since October 18th, 1873. Suspension of trading companies, trust companies, and banks took place, many of them quite solvent, but unable to obtain the necessary gold and currency to meet their obligations."

The situation was relieved by the addition of over $500,000,000 to the currency medium between September, 1907, and January, 1908, as follows: the Associated Banks in New York issued Clearing-House Certificates for $248,000,000, public moneys to the extent of $100,000,000 were deposited with the National Banks, whose note circulation was also increased by $80,000,000, and gold amounting to $106,000,000 was imported.

In this instance, it is worthy of note that the causes were world-wide, and that the crisis was precipitated by the lack of elasticity in the American banking and currency system.

[1] *Journal of the Inst. of Bankers*, April, 1909.

CHAPTER XXV

PAPER MONEY—ITS DANGERS AND METHODS OF REGULATION

Origin and Nature of Paper Money.

In primitive communities, money was always composed of some substance which possessed value in itself. The use of such a substance as money involved loss of interest, which forms by far the largest item in the cost of maintaining a metallic currency.

In most modern communities, considerable economy in the use of the precious metals has been effected. In the United Kingdom notes were formerly the most important part of the paper currency, and their issue has always been in the hands of the banks, but the development of the cheque system in the nineteenth century has relegated the bank-note to a third place.

In most countries, however, except England, a considerable proportion of the circulating medium consists of paper money. As notes possess no value in themselves, there must be some motive to induce persons to accept them as the equivalent of metallic money. This motive is confidence in the ability of the issuer to fulfil, if required, the " promise to pay " in coin stated on the face of the notes. Such confidence, in the absence of any default of the issuer, develops into a habit, and the notes come to be accepted without question in the district or country where they circulate.

The two cardinal requisites of a good paper currency are—

(1) Convertibility, *i.e.*, into coin, on demand.

(2) Elasticity, *i.e.*, the quantity in circulation should automatically expand and contract with the requirements of trade.

Two Kinds of Paper Money.

Paper money is of two kinds, viz., convertible (*i.e.*, into coin) and inconvertible.

It is now generally admitted that convertible paper cannot be issued in excess, in the sense of becoming redundant, as any superfluous notes will be presented for payment and cancelled.

On the other hand, the quantity of inconvertible paper in circulation is only limited by the will of the issuer, subject to any restrictions which may be imposed by law. There is, therefore,

always a danger of its being issued in excess of currency requirements, and so of becoming depreciated. By the operation of Gresham's Law a depreciated paper currency will drive metallic money from circulation and prices will rise in proportion to the over-issue of paper. Many of the disastrous experiments with inconvertible paper have been made in ignorance or in defiance of these principles.

Methods of Regulation.

The issue of paper money may be entirely in the hands of the State, or this function may be exercised by private individuals or companies (usually banks). The unrestricted issue of notes, whether by the State or by banks, has always proved capable of gross abuse, and the privilege of issue is now almost invariably hedged about with regulations as to method, limit of amount, and so on, in order to ensure convertibility.

Prof. Jevons[1] outlines no less than fourteen different methods of issuing and regulating paper currency which have been employed at one time or another, and hints that even these do not exhaust the list.

The principal methods of securing convertibility are as follows—

(1) Simple Deposit.
(2) Partial Deposit.
(3) Proportional Reserve.
(4) Maximum Issue.
(5) Real Property Reserve.
(6) Free Banking Method.

(1) Simple Deposit.

Under this system there is no economy of metallic currency, and the notes are merely certificates that coin or bullion of the value stated in the note is being held in the vaults of the issuer. Such certificates were formerly issued by the London goldsmiths; and the Gold and Silver Certificates, forming part of the currency of the United States, are of this nature.

The legal tender notes for *large amounts* issued by the Canadian Government, and circulating only between banks, are also based on this method, and obviate the inconvenience of transmitting large amounts of specie.

[1] *Money*, cap. 18.

(2) Partial Deposit.

This system is, perhaps, the method most universally adopted for the purpose of safeguarding a note issue. Notes are issued against securities up to a certain amount, beyond which they must only be issued against the actual deposit of specie.

The most familiar example is that of the Bank of England, whose note issue is regulated by the Bank Charter Act of 1844. In that Act the amount of notes which may be issued against the Government debt and other securities (called the " fiduciary issue ") is clearly defined. The accounts of the Issue Department are kept entirely distinct from those of the Banking Department. Both sets of accounts have to be published weekly, and together form the " Weekly Return," which is issued on Thursdays.

When combined with the " elastic limit " system, whereby the limit of the fiduciary issue is, subject to certain restrictions, extended on payment of a fine or tax, the partial deposit method probably possesses more advantages than any other.

The Imperial Bank of Germany possesses this power of issuing notes against securities in excess of the authorised amount, on payment of a tax of 5 per cent. per annum on the excess issue.

(3) Proportional Reserve.

A note issue may be secured by requiring a minimum fixed percentage of the notes in circulation to be held in coin or bullion as a reserve.

The disadvantage of this system is that if the metallic reserve falls to the legal minimum, no more notes can be redeemed. Unless the limit is removed, the reserve cannot be touched, and therefore fails to effect its purpose. This system does not possess sufficient elasticity, to meet the varying or seasonal demands of commerce, *e.g.*, for the periodical " movement " of crops.

In the United States, this want of elasticity in the proportional reserve system nearly always causes a " money squeeze " in the autumn, when the crops are moved, and has even precipitated a crisis.

The National Banks of the United States may issue notes up to the par value of United States bonds deposited by them with the Treasury, but they are required, in addition, to keep cash reserves (of specie or *legal-tender* notes) to the extent of 25 per cent. of their

total liabilities (including notes issued), in certain large towns, and 15 per cent. in other places.

By the Aldrich-Vreeland Act of 1908, temporary measures for partially relieving the want of elasticity were provided, by permitting the issue of notes against certain other classes of bonds.

As a result of the Crisis of 1907, a Monetary Commission was appointed under the above Act to formulate a scheme of currency reform. The Report of the Commission to Congress was made in January, 1912, and its recommendations have been embodied in a Draft Bill.

It provides, *inter alia* (1) for the establishment of a National Reserve Association of the United States with an authorised capital of about $300,000,000, the Charter of which shall run for fifty years; (2) for the extinction of the right of individual issue of notes by the National Banks, which will become members of the Association; (3) for the replacement of National Bank notes by those of the Association.

(4) Maximum Reserve.

Under this system, the maximum circulation of notes is limited to a fixed amount.

By the Bank Charter Act of 1844, the English banks (other than the Bank of England) then issuing notes were allowed to continue the issue up to a maximum not exceeding the average amount for the twelve weeks preceding April 27th, 1844.

The Canadian banks possess maximum note-issues, in combination with an "elastic limit." The total issue of each bank must not normally exceed the amount of its paid-up capital. From 1st October to 31st January in each year, during the movement of the crops, however, each bank is allowed to issue notes in excess of this limit to the extent of 15 per cent. of its combined paid-up capital and reserve fund, on payment of a tax not exceeding 5 per cent. per annum on the excess.

(5) Real Property Reserve.

Under this system, the security for the repayment of the notes issued consists of land and other forms of real property. When the principles of circulation were imperfectly understood, it was argued by some that so long as notes "represented" real property or

securities, they could not be issued in excess or become depreciated. In this way wrote Mirabeau, during the French Revolution, concerning the issue of Assignats. These notes were supposed to be secured on Church and Crown property, and were inconvertible except that they could be used in the purchase of such property. The temptation to meet the pressing needs of the Government by forced and excessive issues proved irresistible, and by successive decrees the issues were raised to the enormous total of 43,581 millions of francs. Ultimately a paper note for 100 francs (£4) passed current for less than 3d. in coin. The notes were redeemed in 1796 at about $\frac{1}{2\,100}$th of their face value, after inflicting incalculable disasters on the industry and commerce of the country.[1]

(6) Free Banking School.

Formerly, in the United States, any person, or group of persons, might form a bank under certain prescribed conditions, and each bank had the right of issue, only restricted by the obligation of depositing Government bonds. Under this system, no regulations were laid down for the daily redemption of notes which might be presented or for otherwise ensuring convertibility. The method, or rather want of method, of this school, is now discredited.

Inconvertible Paper.

This form of currency consists of notes which were, in most instances, convertible in their origin, but owing to political exigencies or other causes, have become mere paper tokens, or "money of convention," circulating by force of law or custom, and accepted more or less readily by the public in payment of debts.

The principal objections to this form of paper are—

(1) It is liable to be issued in excess, and therefore to become depreciated, and drive good money from circulation.

(2) It does not circulate beyond the borders of the country of issue.

During the American Civil War "greenbacks" were issued in excess, and drove most of the coin from circulation.

"Being in excess they inflated prices, excited to speculation, kept industry and trade in a state of agitation, and caused a continual

[1] Palgrave's *Dictionary of Political Economy*, vol. i, "Assignats."

transfer of wealth from the productive to the speculative classes. They were, therefore, bad money."[1]

In many of the South American republics at the present day, the principal currency consists of inconvertible paper issued in excess, and gold is therefore at a premium.

The above quotation concerning the over-issue of " greenbacks " could fairly be used to describe the general effect of all excessive issues of paper money, and in extreme cases trade is almost completely paralysed. Examples of such over-issue might be drawn from the monetary history of almost every civilised community.

There is, then, this temptation to over-issue, and as paper money cannot be exported to other countries, like gold and silver, in the graphic language of Prof. F. A. Walker " such money has no natural drainage. Wherever it is poured out, it makes a swamp,"[2] and causes the inevitable inflation of prices and dislocation of trade. This objection to inconvertible paper is known as " want of elasticity."

Methods of Regulating Inconvertible Paper.

A continued adverse state of the foreign exchanges, irrespective of the " balance of trade," and a premium on gold (as measured in paper) are signs of a depreciation in paper money. Any tendency in either of these directions must therefore be carefully watched, and the issue of notes restricted accordingly. The difficulty is, that the amount of currency for trade requirements fluctuates from time to time, and the withdrawal of redundant paper (where paper is the principal currency) during a time of depression is very difficult to effect. It is a matter of history that issues of this kind have almost invariably been made under the stress of abnormal circumstances, and in many cases were only intended to be a temporary expedient.

As a result of the Franco-German war, the Bank of France suspended specie payments from 1870 to 1874. Its notes became the principal currency of the country, and their issue was so carefully regulated, by watching the foreign exchanges and the market price of gold, that they never became depreciated more than $\frac{1}{2}$ or 1 per cent. even in France's darkest hour, and any slight premium

[1] Palgrave's *Dictionary of Political Economy. Money* (F. A. Walker).
[2] *Ibid.*

on gold disappeared when trade became favourable. Yet even these extraordinary precautions could not avoid the serious consequences of the suspension, and although the over-issue of paper was not enough to affect ordinary transactions, yet, as a result of the above-mentioned disturbances to exchange transactions affecting Paris as a financial centre, London has since become the great settling-house of exchange transactions in Europe.[1]

Summary.

The comparative merits of convertible and inconvertible paper will not long detain us.

We have seen that inconvertible paper possesses the following objections—

(1) Difficulty of regulation.

(2) The temptation to over-issue, and consequent depreciation.

(3) The slightest depreciation injures commerce and finance, owing to the uncertainty of prices, and the adverse state of the foreign exchanges.

(4) Lack of elasticity.

Convertible notes possess none of these objections, except (under certain circumstances) the last, which is removable.

They cannot be issued to excess, in the sense of becoming redundant, and their chief danger lies in the inability of the issuer to discharge his obligations in metallic money, *i.e.*, to maintain their convertibility.

Suspension of payment of notes is usually due to one or more of three causes.

(1) National crisis, such as a great war.

(2) Commercial panic.

(3) Insufficient metallic reserves.

The system which has achieved the best results, and which is becoming the model on which most modern systems of paper money are constructed, is that of "partial deposit," combined with the "elastic limit," or power of emergency issue.

(1) The basis of coin, combined with other reserves of liquid assets, ensure convertibility under normal conditions.

(2) The placing of some definite limit on the total issue is a safeguard against abuse.

[1] Bagehot's *Lombard Street.*

(3) The power of emergency issue, subject to certain restrictions, assuages and even prevents panics, when some undoubted form of credit is urgently required to prevent a general collapse.

Emergency issues also provide, as in Canada, for additional currency at recognised times of the year, and prevent extreme stringency such as that which prevails in the United States during the corresponding movement of the crops.

CHAPTER XXVI

RISE AND DEVELOPMENT OF BANKING IN ENGLAND

How the First Banks Arose.

THE foundation in England of banking in its modern sense dates from the seventeenth century. From the Norman Conquest onwards money-lending and discounting were practised by the Jews, who supplied the Sovereign, the nobility and the Church with much needed cash when required. After their expulsion in 1290, they were followed by the Lombard merchants who became the bankers and money-lenders of English kings in the thirteenth and fourteenth centuries and continued to finance merchants by the provision of funds.

They were succeeded in this function by the English goldsmiths who, under the Plantagenets and Tudors were bullion dealers and money-changers. They also took advantage of the fluctuations in the values of gold and silver, melting down bullion and the heavy coins into plate, or exporting them as their interests dictated. To these operations they gradually added the functions of deposit banking in a primitive form. Up to 1640 merchants had followed the custom of depositing their money and valuables in the Mint in the Tower under Crown protection. In that year, owing to the refusal of Parliament to vote him supplies, Charles I supplied his deficiences by various discreditable methods, including the seizure of £120,000 in bullion and cash belonging to the merchants and deposited in the Tower under the "protection" of the Crown. Although the money was ultimately repaid, the merchants in future deposited their treasure elsewhere.

About this time the goldsmiths commenced the practice of lending out large sums of money to merchants in the form of loans and discounts at high interest, and in order to increase their profits, encouraged deposit of money on which they allowed interest.

"Five or six stood pre-eminent above their brethren and Clarendon says that they were men known to be so rich and of so good reputation, that all the money of the kingdom would be trusted or deposited in their hands. *And they then first came to be called Bankers.*" [1]

[1] Macleod, *Theory and Practice of Banking*, cap. 8, § 6.

These " bankers " proved very useful to Cromwell and Charles II by advancing money in anticipation of supplies, a practice which cost the lenders dear, owing to the action of the King in suspending exchequer payments in 1672 and seizing the sum of £1,328,526, most of which had been lent by the goldsmiths, largely out of funds deposited with them. This caused widespread ruin and distress, and the ultimate loss of principal and interest to their creditors was calculated at roughly £3,000,000 irrespective of litigation expenses.

The failure of William III on his accession to obtain sufficient supplies to carry on a war with France, led to an attempt on the part of the bankers' creditors to come to an arrangement with the Crown, whereby they agreed to forego all arrears of interest and make a further advance to the Government up to the amount of their principal, £1,340,000, on condition that an Act was passed securing them 6 per cent. on the whole amount. The scheme fell through.

Unsuccessful attempts were also made at the instigation of the Government, who were hard pressed for funds, to form some sort of national bank, to supply their needs. However, the originator of these schemes, Mr. William Paterson, persevered, and with the timely support of Sir Edmundbury Godfrey and a few others, succeeded in producing a scheme which resulted in the formation of the Bank of England.

The Bank of England.

The Bank was incorporated in 1694 (Statute 1694, cap. 20), and its charter provided *inter alia*—

(1) For the subscription by the public of the sum of £1,200,000 to be lent to the Government for carrying on the war, on condition of receiving an annuity of £100,000 per annum.

(2) The subscribers to be formed into a corporation, called " the Governor and Company of the Bank of England," with all the privileges of a corporation, and their stock should be transferable.

(3) After 1st August, 1705, Parliament might give twelve months' notice of repayment of the whole debt, when the Bank would cease.

(4) The bills, notes, and other obligations of the Bank were not to exceed the capital of £1,200,000, unless authorised by Act of Parliament.

(5) The corporation was allowed to deal in bills of exchange, buy and sell bullion, gold and silver, and make advances on goods and merchandise.

(6) No advances were to be made to the Crown, except by Parliamentary sanction.

The whole stock was subscribed in ten days, and the war was carried on with renewed vigour, £30,000,000 being spent in six years, in spite of which the rate of interest fell and the national credit rose, owing, in the opinion of the Deputy-Governor (Mr. Michael Godfrey) to the formation of the Bank.

An experiment such as the Bank of England was bound to arouse opposition, notably among the money-lenders, whose exorbitant exactions received a blow, and also among the goldsmiths, whose chief complaint appears to have been that the Bank allowed interest at 2d. per cent. per day on their bills, and thus secured many of their customers. In the words of Macaulay, they "greeted its establishment with a howl of rage." The Bank commenced business on 1st January, 1695, at Grocers' Hall, in the Poultry.

This period is remarkable for the great depreciation of the silver currency, owing to wear and tear, and also to clipping and other fraudulent practices, and to the profitable exportation of full-weight coins. Guineas passed current for as much as 30s. in this degraded medium. In February, 1696, it was decided to reform the silver coinage, and to provide for the gradual reduction of the value of the guinea to 22s. by April in that year, under pain of severe penalties for dealings on any other basis.

The exchange of new coin for old at the Bank led to a "run," and, ultimately, to a partial suspension, which was aggravated in May, 1696, by an attempt on the part of its opponents to destroy the Bank by suddenly presenting for payment £30,000 in notes.

Rival Schemes.

As the Bank of England was of Whig origin, in 1696 an attempt was made by a Tory syndicate to form a rival bank for the benefit of landowners, with a capital of £2,564,000 to be advanced to the Government. As only £7,100 was subscribed, including £5,000 by the Treasury, the scheme was an entire failure.

In 1697 another rival scheme was started under the title of

"The Company of Mine Adventurers of England," which (like some modern mushroom companies) had many titled persons on the directorate. An office was opened in London, and all forms of banking business (as then known) were carried on, including the issue of notes, but the enterprise was short-lived.

Increase of Capital.

The finances of the country were in a very bad state, the Exchequer deficiency being £6,000,000, and its "tallies" at a discount of 40 to 60 per cent., while the bank notes were depreciated 20 per cent. owing to the partial suspension.

Under these circumstances, in 1697 an Act was passed increasing the capital of the Bank, and over £1,000,000 was subscribed, of which £200,000 was received at par in bank notes and £800,000 in Exchequer "tallies," which were withdrawn from circulation, thus restoring the value of the remainder. This amount was lent to the Government at 8 per cent. The same Act, with the avowed intention of preventing competition, enacted that no other bank, or corporation in the nature of a bank, *established by Act of Parliament*, should be permitted in the United Kingdom; and allowed the Bank to increase its issues to the amount of its subscribed capital. Notes, were, however, at this time not issued for less than £20; and, as the re-coinage was so slow, the Government issued £2,000,000 in £5 and £10 Exchequer bills to remedy the lack of currency.

In 1704 and 1707, owing to the course of political events, the Bank was again in trouble, the Jacobites at home and the private bankers having combined to ruin it; but Government support and a call of 20 per cent. on the proprietors saved the situation.

In 1709, by arrangement, the interest on the original Government debt of £1,200,000 was reduced to 6 per cent., with an allowance of £4,000 for management expenses; a further advance of £400,000 was arranged; and the capital of the Bank doubled to provide for the subscription of £2,500,000 Exchequer bills. The new capital was issued at 15 per cent. premium, and was subscribed in four hours. The Bank Charter was also renewed until 1732, and the prohibition of 1697 concerning the establishment of any bank in the United Kingdom by Act of Parliament was extended. In future, *in England*, no corporation, partnership, or

body of persons exceeding six in number were allowed to issue "Bills or notes payable at demand, or at any less time than *six months from the borrowing thereof.*" These restrictions remained in force for over a century, and had the injurious effect of covering England with a multitude of small banks, in contrast to Scotland, where no limitation of the number of partners was imposed, and the banks were few in number, but of great strength. As the issue of notes was then regarded as a banker's principal function and source of profit, this was considered as equivalent to granting to the Bank the monopoly, *as a corporation*, of banking in England.

In 1707 another reform of the coinage was decided on, and, as a result of the famous report of Sir Isaac Newton, the value of the guinea was reduced to 21s., at which it remained until the adoption of the gold standard in 1816.

South Sea Company.

The years 1711–1720 witnessed the great struggle for supremacy between the Bank of England and the South Sea Company, which had been formed to take over the unfunded State Debt of £9,500,000 at 6 per cent., in exchange for the monopoly of trading to the South Seas. In 1717 the Bank's Charter was extended to 1742; but the South Sea Company eventually gained the upper hand, and the King even became its Governor.

In 1720 both corporations proposed schemes for the consolidation of the whole of the public debt, each striving to outdo the other in the competition for supremacy. Finally, the South Sea scheme was accepted; and by spreading the wildest rumours concerning the value of their trading monopoly, several millions of the new capital were subscribed at enormous premiums, £4,000,000 being issued at £1,000 per cent. in June, 1720. The South Sea "bubble" was at its maximum of inflation, and speculation in the most insane enterprises followed. As examples, companies were floated for breeding silkworms in Chelsea Park; curing broken-winded horses; importing jackasses from Spain; and, lastly, "for carrying on an undertaking of great advantage, no one to know what it is," with a promise of 100 per cent. dividend! The inevitable crash came, and by 13th September the price of the stock was £400. The collapse involved the goldsmiths and private bankers who had advanced on the stock. A

"run" was made on the Bank, which, by means of paying its notes in small change, gained time until assistance arrived and the panic had subsided. The Bank restored public credit by purchasing South Sea annuities to the value of £200,000 per annum, at twenty years' purchase, and increased its capital to £8,959,995.

Further Increases of Capital.

In 1742, in consideration of a further Government loan of £1,600,000, free of interest, the Bank's Charter was extended to twelve months' notice after 1st August, 1764; and its monopoly as a corporation of the privilege of exclusive note issue in England was still more rigidly defined.

In 1746 the Bank's capital was further increased to £10,780,000, owing to further Government advances.

In 1758 a firm of Newcastle bankers started issuing notes for 20s., and their example soon spread; but these were suppressed in 1777 and again permitted in 1797.

In 1759, £15 and £10 notes were first issued.

In 1764 the Bank's Charter was further renewed until twelve months' notice after 1st August, 1786, and the repayment of the Government debt.

In 1772 there was a serious panic due to overtrading, during which the Bank of England rendered great assistance in supporting public credit.

In 1781 the Bank's Charter was renewed until twelve months' notice after 1st August, 1812, and the repayment of the Government debt, and its capital increased to £11,642,000.

Effect of Monopoly.

The years 1770–1795 were remarkable for the construction of canals all over England. The increasing industrial activity of the country, which thenceforward moved on with rapid strides, was hampered by a scarcity of currency. The monopoly of the Bank acted as a drag on the wheels of commerce, and as it refused to open country branches, its notes scarcely circulated outside London; while by its monopoly of corporate business, the formation of joint-stock banking on safe and natural lines was prevented.

To supply the lack of currency, all sorts of shopkeepers became bankers, and flooded the country with their issues of notes.

In 1750 there were not a dozen bankers outside London; in 1793 there were nearly 400.

In 1775 an Act was passed prohibiting the issue of bank notes under £1, and in 1777 the limit was raised to £5.

Crisis of 1783.

In 1782 the termination of the American War of Independence led to excessive overtrading, encouraged by unwarranted support from the Bank. The crisis caused a serious "run" on the Bank in 1783, and an alarming foreign drain of bullion set in. The directors decided to restrict their issues until the exchanges became favourable. The desired result was achieved, specie began to flow in from abroad, and the Bank's credit was saved. It is of the highest importance to notice that the policy of the directors was guided by the following principles, as stated by Mr. Bosanquet: "That, while a drain of specie is going on, their issues should be contracted as much as possible, but that as soon as the tide had given signs of ceasing, and turning the other way, it was then safe to extend their issues freely."

A period of calm followed, during which a great inflation of credit took place throughout Europe and the United States, intensified by excessive issues of bank notes. The calm was broken by signs of the coming storm, which was to burst in all its fury upon Europe. In November, 1792, there was a great increase of commercial failures both at home and abroad; the French Revolution had commenced, and early in 1793 the Republican Convention declared war. The unsoundness of the financial position precipitated a monetary crisis, while the failure of several important houses involved others who were solvent. The bank panic commenced with the Newcastle bankers, who had locked up their funds and were unable to withstand the "run." They stopped payment. The crisis spread to practically every bank in the country; and out of an estimated total of 400, about 100 suspended payment, and the remainder were severely shaken. The banks of Exeter and the West of England were notable exceptions, and stood firm. The demands on the Bank for accommodation were enormous. The foreign exchanges were favourable, and

gold was coming in from abroad; yet, in spite of the entreaties of the Government, and the universal demand for currency in place of the discredited country notes, the directors appear to have lost their heads, and, instead of lending freely, contracted their issues. Parliament then took matters into its own hands; it was decided to issue £5,000,000 Exchequer bills to relieve the pressing needs of solvent traders. Over £2,000,000 was lent in this way, all of which was repaid. The operation was completely successful, the panic passed away, and the Government made a profit of over £4,000.

About this time the London bankers ceased to issue notes, and confined themselves chiefly to the paying of their customers' cheques and drafts. This action was practically the first step towards modern deposit banking, which was then only in its infancy.

CHAPTER XXVII

RISE AND DEVELOPMENT OF BANKING IN ENGLAND (II)

The Restriction of Cash Payments.

THE evils of an inconvertible paper currency issued in excess, and the dangers of unlimited powers of issue are vividly brought home to us by the history of the Bank of England and of the country banks during the "restriction."

The closing years of the eighteenth century witnessed the commencement of the struggle of Europe against the supremacy of Napoleon Bonaparte. England had to provide not only for the upkeep of her Army and Navy abroad, but also for loans and subsidies to other States engaged in the struggle. By 1795 these subsidies amounted to £9,500,000.

The Bank had to meet the insatiable demands of Pitt, who, time after time, contrary to the spirit of the Bank's charter, persuaded them by means of promises that were never fulfilled, to honour his drafts.

The clause in the Bank's charter prohibiting advances without Parliamentary assent had been nullified by the Act of Indemnity of 1793, which sanctioned the practice of temporary advances to the Treasury. By omitting to insert in the Bill a limit to these advances, Pitt's power of drawing on the Bank was increased to an unlimited extent; and by the reckless abuse of this power, means were furnished for carrying on the war with the new French Republic.

This policy caused a steady export of bullion; while, simultaneously, there was a great internal demand to meet trade requirements owing to the scarcity of notes, causing an alarming drain of specie from the Bank.

The policy adopted by the directors of the Bank led to stoppage of payment. The excessive contraction of note issues in 1795 by the Bank, in order to counteract the export of bullion, together with a diminution in the country issues, owing to failures of country banks in 1793, had led to an inconvenient scarcity of currency; and, as merchants could not get notes, there was, in

20—(1532)

1797, a continuous rush for gold. The foreign exchanges had become favourable in April, 1796, and remained so until February, 1797. To add to the alarm, there were rumours of the landing of a French force in the North of England, causing a run on, and a general stoppage of, the country banks. The panic spread to London, and was aggravated by the action of the Bank, followed by the private bankers, in contracting their issues.

On 25th February, 1797, the specie in the Bank was reduced to £1,272,000, and an emergency Order in Council was issued on the following day ordering suspension of payments pending the decision of Parliament.

On the 27th February, 1797, with only £1,086,170 in specie left, the Bank suspended payment, and the restriction lasted until 1821.

Bank Restriction Act.

On 3rd May the Bank Restriction Act was passed, requiring cash payments to cease, except for sums under 20s., and also directing country banks to pay their notes in Bank of England paper. By a similar Act, the Bank of Ireland was also ordered to suspend cash payments.

The stoppage was intended to be only temporary, but its continuance was enforced by successive enactments.

The monetary situation was relieved by the immediate issue of £2,000,000 in notes, the excessive restriction of which had caused the internal drain and brought about the stoppage.

Methods of Dealing with a Crisis.

Thus we find two distinct methods of dealing with a monetary crisis—

(1) The restrictive method.

(2) The expansive method.

In the case of an internal drain of specie, the effect of the former method has been to aggravate the evil and precipitate a crisis.

The policy which has been successfully followed in most of the crises of the nineteenth century has been that of expanding the issues, and lending freely to solvent persons, thus bringing almost instant relief.

In the case of a foreign drain of bullion, however, it has been

found necessary to restrict the issues and curtail loans until the exchanges become favourable and gold flows in from abroad.

The most powerful method of influencing the foreign exchanges and attracting gold is that of raising the Bank rate of discount above that prevailing in other financial centres, and is the one now most generally adopted.

Events Following the Suspension.

It was expected that the inconvertible paper would become depreciated, but the support of the merchants and the bankers, together with the acceptance of the notes in payment of taxes, kept them at par for some years.

Owing to bad harvests in 1799 and 1800, the imports of corn were very large, and led to the export of specie to pay for them.

From the year 1790 down to September, 1799, the market price of bullion had remained at about £3 17s. 9d. per ounce, and the £1 note at par; but in June, 1800, the price of foreign gold rose to £4 5s. per ounce, and the foreign exchanges fell below par.

By January, 1801, the price had risen to £4 6s., and the exchange with Hamburg had fallen to 14 per cent. below par. Even after allowing for cost of remitting specie, the exchange was still 7 per cent. against us.

Lord King's Law.

It was about this period that Lord King's Law was discovered. Although Lord King spread the truths contained in this law, it is not known who actually discovered it. The Law may be briefly enunciated thus—

> *If a metallic and an inconvertible paper currency are circulating together, and the market price of bullion exceeds the Mint price, while the foreign exchanges have fallen below the specie point* (i.e., *the point at which it becomes profitable to export specie*), *the paper currency is depreciated, and the difference between the market and the Mint price of bullion is the measure of that depreciation.*

In spite of the growing recognition of this great truth, no attempt was made to remove the cause of the depreciation.

Peace was made with France in March, 1802, and the restriction was due to cease six months afterwards; but a Bill was passed in April, 1802, continuing the suspension until 1st March,

1803, for political reasons, in spite of the warnings of Lord King, Fox, and others. The adverse state of the exchanges was even cited as a reason for continuing the restriction.

Report of the Committee on Irish Currency.

The depreciation of the coinage and note issues in Ireland at this time was also the subject of inquiry by a special Parliamentary Committee. The exchange between England and Ireland had fallen considerably below par, causing great disturbance to trade in both countries. Moreover, in Ireland there were two prices for everything—a money price and a paper price—owing to the depreciation of paper. When the exchange was at par, £100 English money was equal to £108 6s. 8d. in Irish currency; but by 1804 the exchange had fallen as low as £118.

The Committee reported that the over-issue of notes by the Bank of Ireland had caused the depreciation in the notes, as measured by the premium on guineas, and by the state of the exchange, which had made it profitable to export full-weight silver coins to England, leaving only a worn and clipped coinage in circulation.

Events Preceding the Bullion Report.

In 1804, the scarcity of silver coinage caused the Bank to put silver dollars into circulation.

In 1806, the loan of £3,000,000 made by the Bank to the Government became due, but was renewed at 3 per cent. until six months after the ratification of peace.

The resumption of the war with France, and the issue of the Berlin decree, which was aimed at British commerce, led to a rise in the prices of all staple raw materials. The speculation in these products spread to other markets, and the simultaneous opening up of South America to British trade led to the launching of numerous enterprises of the most speculative kind.

The Bank, instead of curbing, only encouraged the fever, and their discounts, which were about £3,000,000 in 1795, rose to £20,000,000 in 1810. At the same time, the country was flooded with the notes of country banks which had sprung up.

The number of the banks had been reduced by failures in 1797 to 270. By the year 1810 they had increased to 721, and their

total issues were estimated at £30,000,000, while those of the Bank of England amounted to £21,000,000.

The effect of the inflation on the price of bullion may be judged from the following table[1]—

	Price of Standard Gold.	Price of Silver.	Exchange with Hamburg.
	£ s. d.	s. d.	s. d.
January, 1805	4 0 0	5 4	35 6
October, 1805	4 0 0	5 5	33 9
July, 1808	No quotation	5 3	34 9
February, 1809	4 10 0	5 3	31 0
May, 1809	4 11 0	5 5	29 6
January, 1810	No quotation	5 7	28 6

While guineas fetched 26s. or 27s. in paper.

Bullion Report, 1810.

This state of affairs led to the appointment of the Bullion Committee of 1810, whose famous report is rightly regarded as one of the most important in monetary history.

The subject of the report was as follows—

(1) The difference between the Mint price of gold (£3 17s. 10½d. per oz.) and the market price (£4 10s. per oz.).

(2) The fall in the foreign exchanges—that of Hamburg 9 per cent., and that of Paris 14 per cent.

(3) The recent rapid increase in bank notes.

(4) The disappearance of specie from circulation.

These facts were generally admitted, but on them were based two opposing sets of opinions.[2]

One party maintained—

1. (*a*) That the bank notes were depreciated.

(*b*) That the difference between the market price and the Mint price of gold bullion was the measure of the depreciation.

2. (*a*) That the extreme limit to which the foreign exchanges could, by the nature of things, fall, in any case, was defined, and easily ascertained; and consisted of the expense of freight, insurance, and some other minute causes.

[1] Macleod's *Theory and Practice of Banking*, cap. 10, § 39.
[2] Macleod, *ibid.*, cap. 10, §§ 45-46.

(*b*) That in the then state of the exchanges there was a very large excess of depression over and above that limit, which was not attributed to any of these causes.

(*c*) That this residual depression of the foreign exchanges and the rise of the market price above the Mint price was caused by the excessive issues of bank notes in circulation.

3. That a diminution in the quantity of bank notes would increase the value of the domestic currency—would cause the foreign exchanges to rise to par, and the market price of gold to fall to the Mint price.

4. That the directors of the Bank of England ought to follow the same rules in the extent of their issues during the restriction of cash payments, as they were obliged to do before, viz., by regulating them by the foreign exchanges. *When the exchanges were favourable and flowing in, they might enlarge them, when the exchanges were adverse, they must contract them.*

The opposition (including the directors of the Bank), held to the following opinions—

1. That the notes were not depreciated, but the price of specie had risen; and they denied even the existence of the premium on gold.

2. That the depression of the foreign exchanges was entirely caused by the unfavourable balance of payments due to the foreign remittances during the war.

3. No increase or diminution of notes would affect the foreign exchanges or the market price of bullion.

4. That, during the restriction, so long as issues of notes were regulated by the demands of the public, they could not be over-issued.

The denial of the existence of a premium on gold seems impossible, until we remember that it was a penal offence to sell guineas for more than 21s.; and thus there were not, as had been the case in Ireland, two prices *openly* quoted for everything (*i.e.*, a money price and a paper price). Moreover, the currency consisted almost solely of bank paper and tokens. People would not give 5 dwts. 3 grs. of gold for a £1 note when the latter was only worth 4 dwts. 8 grs., and so gold disappeared from circulation.

The report of the committee supported the first set of arguments, and their findings may be summarised very briefly as follows—

(1) The difference between the market and Mint prices of specie could not normally exceed 5½ per cent., and an ounce of standard gold could not fetch more than £3 17s. 10½d. in gold coin unless the latter contained less than 1 oz. of gold. Since the suspension, paper had become the measure of value; and, measured in paper, the value of gold was about £4 10s. per ounce. This difference was caused by the over-issue of paper, which, not being exportable, became depreciated in value.

(2) The depression in the foreign exchanges was about 13 per cent. over and above the expenses of transmitting specie, and could only be accounted for by the state of the currency at home.

(3) The excess of the note issues was caused by the removal of control consequent on suspension of payment.

(4) It was highly important that the note issues should be regulated, as before the restriction, by the state of the foreign exchanges and the market price of bullion; but it was almost beyond human power to regulate the issue of *inconvertible* paper on these principles to correspond with trade requirements, without injury to commerce. The precious metals were the only natural and safe regulators.

(5) To restore the balance between gold and paper by lowering the value of the metallic currency, as had been proposed, would be a breach of public faith and a great evil.

(6) The only safe and proper remedy was a resumption of cash payments.

The committee included some of the best known financial authorities of the day (outside the Court of Bank directors), including Mr. Horner, Mr. Huskisson, and Mr. Henry Thornton, who were the actual authors of the report. The latter was drawn up only after sifting the exhaustive evidence of bank and other directors, general merchants, and independent witnesses. The reception accorded to it by Parliament is, therefore, the more surprising, and is a perpetual warning of the danger of allowing a mere Parliamentary majority to override the considered opinions of experts in the realm of finance.

The report was presented to the House of Commons in May,

1811, by Mr. Horner, who moved the adoption of its principles in sixteen resolutions. After a prolonged debate of four nights, the Bullion Committee and the sound currency party were defeated by the Ministry, whose interests were, of course, bound up with those of the Bank of England. Most of the resolutions were negatived without a division; and the last, viz., that cash payments ought to be resumed in two years' time, was lost by 180 votes to 45. The Restriction still dragged on.

Soon afterwards, Lord Stanhope brought in and passed a Bill in the House of Lords, making it a misdemeanour to draw any distinction between guineas and notes when making payments. In opposing this Bill, Lord Grenville, who, with Pitt, had actually proposed the original restriction of cash payments, warned the Ministers that their financial policy, if pursued, must lead to disaster, and was analogous to the fatal over-issue of "Assignats" in France.

In consequence of the increased issues of notes, which were very profitable to the Bank, the paper price of bullion continued to rise. In June, 1812, it was about £4 18s. per ounce, and in 1813 it reached its maximum of £5 10s., at which price the real value of the £1 note was 14s. 2d.

The high prices of corn, due to failure of harvests, to stoppage of Continental supplies, and to the inflation caused by the over-issue of paper, led to vast land speculations. Country banks increased from 728 in 1811 to 940 in 1813, and their issues were estimated at £25,000,000.

The re-opening of the continental ports to trade in 1813, and the abundance of that year's harvest, pricked the bubble of speculation, which collapsed, strewing the years 1814–17 with financial wreckage. During this period, eighty-nine country banks failed, and the country issues were reduced by about one-half. The contraction in currency raised the value of the remainder, so that by October, 1816, the paper price of gold was £3 18s. 6d., and the foreign exchanges became favourable until the following year, thus vindicating the principles of the Bullion Report.

After the restoration of peace in 1815, a partial resumption of cash payments proved so successful, that the gold in the Bank, instead of diminishing, actually increased, until in October, 1817, it amounted to nearly £12,000,000.

The Bank then gave notice to redeem, if desired, all notes dated prior to 1st January, 1817.

Meanwhile, war had again broken out. Early in the same year, the taking up of several large foreign loans in England had caused the exchanges to fall, and the market price of gold again rose.

The gold standard had been set up by the provisions of the Coinage Act of 1816, and in July, 1817, large issues of the new gold coin were made.

All these events caused a drain of gold from the Bank to the extent of £6,750,000. Simultaneously, the rate of interest on Exchequer bills was reduced, causing a foreign drain of gold in 1818.

In spite of this, the Bank increased its loans to the Government from £20,000,000 to £28,000,000; and its issues of notes continued unchecked, while the country issues had increased by two-thirds since 1816.

In consequence of the continued drain of specie, of which £4,000,000 was said to have gone to the French Mint, in 1819 an emergency Act was passed, entirely suspending cash payments.

Committees of inquiry were appointed by both Houses of Parliament. The evidence given before these Committees showed that the mercantile world, and many of the Bank's directors, were now as strong in support of the principles of the Bullion Report as before they had been in opposition.

As a result of the evidence given before the Committees, a Bill was passed, in 1819, providing, by gradual steps, for the complete resumption of cash payments not later than 1st May, 1823. A remarkable feature of this Bill was that both its introducers—the Earl of Liverpool and Robert Peel—had previously voted against the Bullion Report.

Lord Liverpool, who introduced the Bill in the House of Lords, in a speech which is a model of clear reasoning based on sound principles, said that the chief points in question were—

"(1) It was expedient to return to some fixed standard of value.

"(2) Whether that standard should be the ancient one.

"(3) By what means this could be done."

The Act answered the second question in the affirmative, this being the only method consistent with good faith and common honesty. It provided for the resumption of payments by ordering the redemption (in *ingots* of bullion) of bank notes to the value

of not less than 60 oz. of gold at one time. The rate of exchanging notes for ingots was fixed at £4 1s. per ounce until 1st October, 1820; £3 19s. 6d. until 1st May, 1821; £3 17s. 10½d. until 1st May, 1823, after which date payments would be made in coin.

The restrictions on trading in bullion and coin were also abolished, and almost simultaneously an Act was passed strictly forbidding any advances by the Bank to the Government without the express sanction of Parliament, thus putting an end to the abuses which had led up to the suspension of 1797.

In 1821 there was such an accumulation of gold at the Bank of England that the directors felt themselves able to expedite matters; and an Act was passed enabling them to resume in May of that year, thus ending a period during which England experienced in full measure all the evils resulting from a depreciated, inconvertible paper currency, and the effects of which left their mark on trade during the next quarter of a century, and on currency literature for all time.

CHAPTER XXVIII

RISE AND DEVELOPMENT OF BANKING IN ENGLAND (III)

The Rise of the Joint-Stock Banks.

THE period following the resumption of cash payments is chiefly notable for the formation and rise of the great joint-stock banks, and the breaking down of the monopoly of the Bank of England.

In 1822, owing to the severe fall in the price of corn, which was due to over-production and large imports following a period of high prices, pressure was brought to bear on the Government by country bankers and other gentlemen, on the plea that the note issues had been unduly contracted; and the Government was persuaded to pass a Bill allowing the country bankers to continue issuing £1 notes until the Bank charter expired in 1833.

Meanwhile, they endeavoured, without success, to arrange with the Bank of England for the formation of joint-stock banks on the Scotch system outside a radius of 65 miles from London, in order to strengthen the country issues, which in 1824 began to increase, and in 1825 were above the level of 1818.

Crisis of 1825.

In 1824 the struggle between Spain and her American Colonies was ended by the recognition of their independence, and the opening up of immense fresh markets in Mexico and South America offered vast opportunities for the British export trade, and for the investment of British capital. As usual, traders were dazzled by the prospects of a short cut to affluence, the public were again seized by a speculative mania, and subscribed at absurd premiums for shares in enterprises of which they knew nothing. The speculative tendency was fostered and probably caused by an abnormally low rate of interest. It was the South Sea "Bubble" over again, but on this occasion the phrase to conjure with, according to a contemporary, was the "mines of Mexico," which presented to an excited public visions of an Eldorado of wealth beyond the dreams of avarice. Prices rose all round.

The bullion in the Bank was reduced from over £14,000,000 in January, 1824, to £11,600,000 in October of the same year. A

severe fall in the foreign exchanges had also taken place; but, instead of contracting their issues, the Bank directors actually increased them in October, 1824, over £2,000,000, thus supporting the inflation, and hastening the drain of bullion, which continued with increased severity until the middle of December, 1825, when it reached its lowest ebb at about £1,000,000.

The country bankers also increased their liabilities by reckless advances and issues of notes. The inflation reached its height about May, 1825, after which there was a pause, and then the crash came. Prices fell even faster than they had risen. The loans to the South American States and the Mexican mining companies were almost total losses The Bank made violent efforts to contract its issues, and the country banks husbanded their resources in view of impending trouble, and replaced the drain of gold from the Bank by an internal one to provide for their obligations. So great was the destruction of credit, that the country was said to be "within twenty-four hours of a state of barter."

By the autumn, symptoms of a monetary crisis were evident. Several country banks failed in November, and on 3rd December, Pole & Co., an important banking house, stopped payment, bringing down a number of country banks with them, and causing a general "run" on the London banks.

From 12th to 17th December the crisis was at its height. By the 13th the exchanges had turned in our favour; on the 14th the Bank found it safe to adopt the expansive principle, and advanced huge sums on all kinds of paper to allay the panic. Relief was almost instantaneous, and in London by the 16th the worst was over. Between December 14th and 17th the Bank issued over £5,000,000 of notes. In the country the demand was still great, and was satisfied by the despatch of a quantity of £1 notes, which stopped the "run." By the beginning of 1826 the banking crisis was over, but during its continuance several London bankers and seventy-six in the provinces failed, while many more were dissolved.

Committee of Inquiry, 1826.

An inquiry was held in 1826 into the causes of the crisis, and the English banking system came in for much severe criticism.

The Bank of England was blamed for increasing its issues while gold was being exported, and for not expanding them early enough in the crisis when the foreign drain had ceased. The numerous failures among country banks, causing such distress, led to the passing of an Act in 1826 prohibiting the issue of notes under £5.

In 1828 an Act was passed prohibiting the circulation of Scotch and Irish notes in England for sums under £5.

Country Bankers' Act, 1826.

Following the lead of Lord Liverpool and Robert Peel, who clearly saw that the multiplication of small banks was due largely to the evil of the Bank's monopoly, the "Country Bankers' Act of 1826" was passed, providing for the formation of joint-stock banks outside a radius of 65 miles from London. They were, of course, permitted to issue notes, and the liability of the shareholders was still unlimited; but for the first time the public officers of such banks could sue or be sued—a first step towards incorporation.

Curiously enough there was no eagerness to take advantage of the new Act. In the first three years only eleven banking companies were formed, of which some were transfers of old private banks. The Lancaster Banking Co. had the honour of being the first English joint-stock bank other than the Bank of England. The Huddersfield Banking Co. and Stuckey's Banking Co. both appeared in 1826, and the National Provincial Bank of England in 1833, thirty-four being formed in the first seven years, after which they increased more rapidly. As regards banks formed prior to 1844, this Act is still in force.

In 1827 the Bank officially adopted the principles of the Bullion Report regarding its issues, which had been emphasised by Sir F. Baring and by Mr. Horner; in future the issues were to be regulated by the state of the foreign exchanges and the bullion market, while their aim would be to keep a stock of bullion equal to one-half the amount of their securities.

Renewal of the Bank's Charter, 1833.

In 1833 an Act was passed (1) renewing the Bank's Charter until twelve months' notice from 1844, and the repayment of the Government debt; (2) making bank notes legal tender, except at

the Bank or its branches ; (3) granting the Bank the sole monopoly, as a corporation, of issuing bills or notes on demand within a 65-mile radius of London ; (4) to remove any doubt on the subject, the right of forming any banking company within the 65-mile radius was expressly permitted, provided it did not issue notes.

There were also provisions regarding the management and repayment of the Government debt.

Crisis of 1837.

In 1837 there was another crisis due to speculation in foreign loans and railway extension. It was preceded, as usual, by an abnormally low rate of interest, and aggravated by a large American demand for specie for currency, for which purpose a arge amount of American paper had been placed with the joint-stock banks. These banks had re-discounted or borrowed on most of it, causing an abnormal inflation of credit. Several banks received support from the Bank of England, but the disturbance to trade was not serious enough to be deemed a panic. The crisis was most severely felt in Ireland, where, however, a general " run " on the banks had been well provided for.

Further Legislation.

In 1838 a statute was passed enabling joint-stock banks to sue or be sued by any of their shareholders.

In 1844, owing to the failure of several joint-stock banks through mismanagement, an Act was passed for their constitution and regulation. It provided (*inter alia*) for their formation only under letters patent from the Crown, with unlimited liability still attaching. Their capital was not to be less than £100,000, of which one-half was to be paid up before commencement of business, and a monthly statement of their assets and liabilities had to be published. The restrictions were so onerous, that joint-stock enterprise was nearly killed, and only one new joint-stock bank —the City Bank—was formed between 1845 and 1860. The Act was repealed in 1857.

The Bank Charter Act of 1844 is referred to elsewhere. It was designed to secure the convertibility of the note issues and to prevent a recurrence of financial crises. The chief effect on banking in general was the prevention of the formation of any

fresh bank of issue in the United Kingdom, but it fortunately left unregulated the receiving of deposits and the method of their employment as a source of profit, which are now regarded as a banker's chief functions.

The Joint-Stock Banking Companies Act of 1857 brought banks within the scope of the Companies Act of the previous year (except that liability was still unlimited), and raised the maximum number of partners in a private bank from six to ten.

In 1858, for the first time, the principle of limited liability was permitted to banks, owing to the serious failures among joint-stock institutions in the crisis of 1857, chiefly due to inflation of credit and re-discounting. Liability as regards note issues still remained unlimited, and shares were not to be less than £100 each (this limit was removed in 1862). Owing to the prejudice existing at that time against any limitation of the liability on bank shares, and the unwillingness of the existing banks to change their constitution, the Act was practically ignored for many years. After 1862 most of the new banks were incorporated under the Companies Act of that year, which simplified the constitution and formation of all companies.

In 1866 the statute known as Leeman's Act was passed with the object of preventing "bear" speculations in bank shares. It requires the specific numbers of all shares to be inserted in all contracts for sale of bank shares; but, although the Act is practically a dead letter, it would probably be revived if the practice ever reached any magnitude.

The failure of the City of Glasgow Bank in 1878 for £12,500,000 caused such widespread misery and ruin among its shareholders, whose liability was unlimited, that shareholders in the old unlimited liability banks began to realise their position and to agitate for a limit to be imposed. Further legislation was provided by the "Reserve Liability Act of 1879," by which unlimited companies which registered as limited, as well as companies originally limited, were empowered to create a reserve liability for creditors, only to be called up in the event of winding-up. Unlimited liability in respect of note issues was preserved and other regulations imposed.

The Act was not at first popular with bank directors, but pressure of the shareholders induced several of the leading London

banks to adopt its provisions. Most of the joint-stock banks followed, and the step proved advantageous by enabling wealthy and influential people, who had shrunk from risking their whole fortunes, to purchase an interest in these undertakings. By the end of 1883 there were only nine banks with unlimited liability.

The bulk of the private banks are still, however, unlimited, although some of them, such as Messrs. Glyn, Mills, Currie & Co. and Messrs. Coutts & Co., are incorporated as *private companies* with unlimited liability. Since the Baring crisis of 1890, most of the leading private banks have found it advisable to publish their accounts, although the omission of the Profit and Loss Account deprives these of much of their interest. Since 1890 the leading clearing banks have also published a monthly statement of their position.

To the joint-stock banks the Acts of 1833 and 1844 were almost blessings in disguise. They were forced to concentrate their efforts on the accumulation of deposit capital and its distribution, subject to proper restriction, where it was most needed. The growth of deposit banking in the nineteenth century, unhampered by unnecessary legislation, has been phenomenal.

Recent Developments.

The last few decades have been remarkable for the absorption of the country banks by the large joint-stock institutions, and by amalgamation among the latter. This has led to the increased concentration of the banking capital of the kingdom in the hands of a few strong institutions, which has always been the feature of banking in Scotland, where it was allowed to develop on natural lines from the very first. Banking authorities are not agreed as to whether this amalgamation is in the best interests of the community.

Towards the end of 1917, three fresh banking amalgamations were carried out, namely, the National Provincial Bank of England with the Union of London and Smith's, the London and Provincial with the London and South Western, and the London County and Westminster with Parr's. In the early part of 1918 a similar project was put forward affecting the London City and Midland and the London Joint Stock Bank.

CHAPTER XXIX

THE LONDON STOCK EXCHANGE

History and Constitution.

THE London Stock Exchange came into being at the end of the seventeenth century, about the same time as the Bank of England. It will be remembered that the proceeds of the early issues of Bank stock were lent to the Government, and formed the nucleus of the National Debt, and so a class of persons sprang up, known as "stockbrokers" and "stockjobbers," to meet the needs of those who wished to buy or sell this stock. For a long time anyone might act in this capacity, and during the South Sea bubble in 1720 people of the most incongruous professions acted as brokers and jobbers. For a few years these brokers and jobbers met in a portion of the Royal Exchange, then for three years of the eighteenth century in Change Alley. All this time the "Stock Exchange" was carried on in the open air or in coffee-houses.

In 1773 it was found desirable to meet in a building, and one was taken at the corner of the Royal Exchange and Threadneedle Street. *Anyone* was admitted as a "member" on payment of 6d. This only lasted a quarter of a century, and since 1802 the Stock Exchange has occupied its present quarters in Capel Court, which consist roughly of a triangular building of which very little fronts the street (owing to the offices which surround it), bounded by Bartholomew Lane, Throgmorton Street, Threadneedle Street and Old Broad Street.

At the same time the Stock Exchange became a separate body governed by its own rules. At the present time it is a corporate body, under the dual control of the Managers, representing the proprietors, and the Committee, representing the members. Formerly, although every proprietor had to be a member, every member was not necessarily a proprietor. Now every member must hold at least one share and the qualifications for admission to membership have been made more stringent. The rules of the Stock Exchange are drawn up and rigorously administered by the Committee.

Members are of two kinds, brokers and jobbers (or dealers). The broker acts as the intermediary between the public and the

jobber, who specialises in certain stocks and provides a " market " in them. These functions are now rigidly separated, and a member cannot act in both capacities.

The only persons admitted to the Stock Exchange are the members and their " authorised clerks," who have been granted specific authority to make bargains on behalf of their principals.

History of an Actual Purchase.

It is impossible in a brief space to deal adequately with the manifold activities of the Stock Exchange, and perhaps the history of an actual transaction will create the most reliable and lasting impressions.

We will suppose that on July 3rd, 19.., Mr. John Brown of Brighton, instructs his brokers in London, Messrs. Smith, Graham & Co. (members of the Stock Exchange), to purchase £1,000 London and North Western Railway Ordinary Stock at " best " (*i.e.*, without a maximum limit of price). On July 4th, on receipt of the order, one of the brokers, or his authorised clerk, on arrival at the Stock Exchange, which is informally divided into recognised " markets," goes to a jobber (of the firm of Messrs. North, Pole & Co.) in the Home Railway Market, and asks him to " make a price " in London and North Western Railway Ordinary (known briefly as " Brums ") without, of course, indicating whether he is a buyer or a seller. The jobber quotes him 132–132½, *i.e.*, he will buy from the broker at the lower and sell to him at the higher price. The broker is not satisfied and asks for a closer price, and if the market is active the jobber may quote him 132⅛–132⅜. Having " made " a price, the jobber, in the absence of any stipulation to the contrary, is bound to deal up to £1,000 on these terms. The broker says, " I buy one *i.e.*, one thousand pounds stock) at 132⅜," and the transaction is entered by both parties in their dealing books. No contract is signed by the principals, but on the following morning the brokers' and jobbers' clerks meet in the basement of the Stock Exchange and check all bargains of the previous day.

The broker may, if he chooses, " mark " the bargain, *i.e.*, he enters it on a slip of paper and puts it in a box, thus ensuring that it shall appear in the column provided for " business done," in the Stock Exchange Daily Official List, which contains the official prices and other information regarding every stock admitted by the Committee

to an official quotation. This practice of "marking," however, is somewhat neglected.

The difference in the two prices quoted by the jobber nominally represents his "turn" or profit for making a market, but unless a run of buying is expected, the jobber more often than not has to obtain the stock from some selling broker or another jobber in the same market. If in the meanwhile the stock has risen he will lose a portion of his turn, or perhaps sustain a loss. If it falls, his profit is increased.

The bargains are, of course, properly recorded later in the day at the offices of the two principals. The broker makes out and signs a contract note which he sends to his client.

FORM OF CONTRACT NOTE

795 OLD BROAD STREET,
LONDON, E.C.
4th July, 19...

BOUGHT FOR ACCOUNT OF JOHN BROWN, ESQ.

		£	s.	d.
	£1,000 London and North Western Railway Ordinary Stock @ 132⅜	1323	15	0
Contract Stamp, 3s.	Commission @ ½ per cent.	6	12	6
	Contract Stamp		3	0
	Government stamp and Company's fee ..	6	17	6
		£1337	8	0

E. & O. E. (Signed) Smith, Graham & Co.,
Members of the Stock Exchange.

Subject to the Rules and Regulations of the London Stock Exchange. For settlement July 12th. Country cheques three days earlier.

In the above "bought note" £1,000 represents the "nominal value" of the stock, and £1,323 15s. 0d. its "market value." The broker's commission is known as "brokerage."

Mr. John Brown has thus to provide his brokers with the sum of £1,337 8s. 0d. on or before settling day, July 12th.

The Settlement.

The settlement in most stocks and shares takes place twice a month and is divided into three parts, extending usually over four days.

(1) Mining Contango, or Carry-over Day.
(2) General ,, ,, ,,
(3) Ticket or Name Day.
(4) Settling or Pay Day.

There are three other kinds of Settlement—

(1) Consols Settlement.

(2) Special Settlements.

(3) Settlements for "cash," *i.e.*, immediate settlement.

The first takes place at the beginning of every month, when all bargains in Consols, and other Government and allied stocks, which have not been dealt in "for cash," *i.e.*, for immediate settlement, are settled.

A "Special Settlement" is fixed by the Stock Exchange Committee for the *first* settlement in stocks or shares which have been recently issued.

To return to our client, as he is an ordinary investor and is prepared to pay for his stock, we will ignore Contango Day for the present.

On the day before Settling-day, *i.e.*, Ticket-day, all the names of persons who have bought stock, together with particulars of the amount, price, etc., are "passed," and ultimately reach the brokers whose client has sold the stock.

This is done on July 11th by means of a "ticket" which is made out by Smith, Graham & Co. as follows—

FORM OF TICKET

No. 1746 Pay @ 132⅜

Consideration	£1323	15 0
Stamps	6	15 0
	£1330	10 0

If this Ticket be divided, insert its number and the name of Party dividing it, or the new Ticket will not be paid for.

£1,000 Brum @ 132⅜

To John Brown,
of 1054 Marine Parade, Brighton,
Gentleman.

Given to North, Pole & Co.,
11th July, 1912.

Smith, Graham & Co.,
of 795 Old Broad Street, E.C.
PAY.

As the Government stamps are paid by the buyer, and the *selling* broker gets the transfer stamped, the amount of £6 15s. 0d. is inserted above.

The difference between the amount on the ticket and that on the contract note is £6 18s. 0d. made up of (*a*) £6 12s. 6d. brokerage, which the broker retains, and (*b*) contract stamp 3s. and company's fee 2s. 6d.

The ticket is handed on July 11th, at the Stock Exchange clearing house, to our jobbers, North, Pole & Co. If they have the stock, they keep the ticket, and ultimately hand it with the certificate and signed transfer to Smith, Graham & Co., who pay them the amount of the ticket, by a cheque on a Town Clearing bank.

If they have bought the stock from another jobber, they hand the ticket to his clerk after placing their name on the back, and so the ticket goes on until it reaches Messrs. Jones Brothers, the brokers who have sold the stock on behalf of their client, Charles Robinson. If there are two selling brokers with £500 each the ticket is "divided" accordingly and fresh tickets made out. In practice, the operations in most active stocks are simplified by the use of clearing sheets, whereby buying and selling transactions for similar amounts are "cancelled out," and the buying and selling brokers are readily brought into contact with each other, thus avoiding much unnecessary passing of tickets. If any broker who has sold stock has not received a ticket by 2.30 on ticket-day, he has the power of "selling-out" the stock in question through the official broker to any person who makes a bid for it, the loss being borne by the person who fails to deliver the ticket.

Jones Brothers, the selling brokers, fill in a common form of transfer and send it to their client for signature and attestation, *i.e.*, signature in the presence of a witness.

ABRIDGED FORM OF TRANSFER

Impressed Government Stamp, £6 15s.

I, CHARLES ROBINSON, of 965 Maida Vale, London, W., Merchant, hereinafter called the transferor, in consideration of the sum of [1] One thousand three hundred and twenty-three pounds fifteen shillings paid to me by JOHN BROWN,

of 1054 Marine Parade, Brighton,

Gentleman,

hereinafter called the transferee, do hereby sell, assign, etc., unto the said transferee, his executors, assigns, etc., all the One thousand pounds Ordinary Stock of and in the undertaking called the London and North Western Railway, etc., etc.

Dated the 12*th July*, 19...

[1] N.B.—This amount called the "consideration" is usually that paid by the buyer, and seldom agrees with the amount actually handed to the seller.

On receipt of the transfer executed by their client, Messrs. Jones Brothers send him a cheque for the amount of the sold contract-note. They also hand the signed transfer and certificate to the brokers named on the ticket, *i.e.*, Smith, Graham & Co., who pay them the amount of the ticket.

If the £1,000 stock formed part of a larger certificate, Jones Brothers would first send the certificate and signed transfer or transfers, to the Railway Company, who would keep the certificate, fill in the form of certification on the transfer, and return the " certified transfer " which is then a " good delivery," *i.e.*, complete and regular as to form. Jones Brothers are allowed ten days of grace from settling-day in which to deliver *registered* securities which they have sold, and if the stock in question is not forthcoming by July 22nd, which is known as " buying-in day," Smith, Graham & Co., can if they wish, or if their client is pressing for delivery instruct the official broker to buy-in a similar amount of stock at the price of the day. Any loss will fall on Jones Brothers or their client. The practices of " buying-in " and " selling-out " are, perhaps, more honoured in the breach than in the observance.

Smith, Graham & Co. now send the transfer to John Brown for signature and attestation. On its return, they forward it, with the certificate (if necessary) to the Secretary of the Railway Company. The latter sends a formal notice of the receipt of transfer to the seller, which is done to prevent forgery or fraud, the old certificate is cancelled, a fresh one issued in the name of John Brown, and sent to his brokers, who forward it to their client. The transaction is complete.

In the above transaction, settling-day does not appear to play a very important part. The other payments to be made consist chiefly of adjustments and differences between the intermediate jobbers.

However, a large proportion of the bargains are not in registered stocks and shares, but in bearer bonds, bearer shares and scrip. These pass from hand to hand without any formalities of transfer and must be delivered and paid for on settling-day. These bearer securities usually have sheets of " coupons " attached, which are small bearer warrants for the payment of interest at fixed dates, or of dividends at advertised dates, payable at some bank or other financial house.

The shares of most American railroads and certain other companies are, by custom, treated as being " to bearer." They are made out to a registered holder, usually a well-known financial firm, who has signed *in blank* the printed form of assignment on the back. The holder can at any time, if he wishes, fill in his name as transferee, and send the certificate to America for registration. If he does not, the dividends (if any) are sent to the registered holders. Shares registered in well-known names are more marketable and so most people prefer not to have them registered, but to claim the dividends from the registered holder who makes a small charge for his trouble.

There is still another form of security, *i.e.*, inscribed stock. In this case the evidence of title of the stock-holder is the entry in the books of the institution which keeps the stock register, *e.g.*, the Bank of England, in the case of British Government stocks. Transfer is effected by means of attendance of the stock-holder in person (or by his attorney on his behalf) who transfers the stock into the purchaser's name by signing the form of transfer prepared in the books.

Most of the transactions in inscribed stocks (which include most of the British, Indian, Australian, and Colonial Government stocks which are not " to bearer ") are not done for the ordinary settlement at all, but may be either for the so-called " Consols Settlement " at the beginning of each month, or for cash, *i.e.*, immediate delivery.

The Carry-over.

Hitherto we have assumed that Mr. John Brown was an ordinary investor and wished to take up and hold his stock. But he may have had a " tip " that the forthcoming dividend on " Brums " was likely to exceed market expectations, and wanted a little " flutter." Being short of ready cash, he intimates to his broker when buying, that if by contango-day (July 10th) the price has not risen to expectations, he will want to " carry-over " the bargain, in other words he is a " bull." Hence, when the contract note is sent, the Government stamp and company's fee will be omitted. If by July 9th the price rises say to 136 and Brown sells out, the brokers send him a cheque for the difference and the transaction is complete.

If, however, he wishes to carry-over, Smith, Graham & Co. must find someone to take up the stock in place of their client.

They may either arrange the matter with the jobbers, North, Pole & Co., or with one of the firms known as "money brokers," who have large resources of their own or their clients, and make a practice of lending on Contango at an attractive rate of interest. This rate, which varies according to the class of stock, and the demand for carry-over facilities, is known as the "Contango-rate," and the persons paying the rate are known as the "givers-on."

The persons who lend the money and take up the stock are known as the "takers-in." They agree to take-in, or buy, so much stock at the "making-up price," which is based on the middle price ruling at 12 o'clock on Contango-day, and to re-sell it to the "givers-on" at the same price for the following settlement.

Suppose the making-up price on July 10th is only 131 (*i.e.*, £1,310 for the £1,000 stock) the client has to pay the difference of £13 15s. in price, plus brokerage and contract stamps, and interest for fourteen days at the Contango-rate (say) 5 per cent.

A special contract note is sent to him as follows—

795 Old Broad Street,
London, E.C.
10*th July*, 19...

Continued for Account of JOHN BROWN, Esq.
From 12th July Account to 26th July Account.

Cr.							*Dr.*						
£1000	L. & N. W. Rly. Ordy. Stock	131	1310	0	0	£1000	L. & N. W. Rly. Ordy. Stock ..	131	1310	0	0
							Contract Stamp			3	0
							Int. for 14 days @ 5 %			2 10	3
	Contract Stamp 3s.								1312	13	3

(Signed) Smith, Graham & Co.,
Members of the London Stock Exchange.
Subject to the Rules and Regulations of the London Stock Exchange.

E. & O. E.

We will assume that the money brokers, Isaac Goldberg & Co., are the "takers-in." *They* make out the ticket, and in place of John Brown's name they insert the name of the person actually taking up the stock, *i.e.*, either their own or their client's, or very probably that of their bankers, who play an important part in "financing the account." The ticket is passed successively to Smith, Graham & Co., North, Pole & Co. and eventually reaches Jones Brothers who receive payment from Isaac Goldberg & Co.

If by July 24th Brown still wishes to carry-over, the transaction is

repeated at the new making-up price on that date, and so on, until the stock is sold, or taken up, by him.

The " bulls " are not the only speculators, however. There are the " bears," who are persons who have sold stock which they do not possess, in the hope of the price falling sufficiently to admit of a profit on re-purchase. If by Contango-day the stock has been bought-back, the transaction is at an end and the client pays or receives a cheque for the difference. If the bargain is to be carried-over, the broker must endeavour to borrow the stock for his client, who has usually to pay a charge for the privilege, called " backwardation," in addition to paying or receiving any difference in price between the price at which he sold and the making-up price. The broker sends him a continuation contract similar to the one in the " bull " transaction but with the Dr. and Cr. sides reversed.

Sometimes the " bulls " and " bears " of a certain stock are about even, in which case there may be no backwardation, or the " bulls " may predominate, and the " bear " may even receive the contango rate from the " bull."

The concerted action of bulls to " corner " a certain stock is called a " rig." This is a less dangerous practice than over-selling by the bears, as the supply of money to accommodate bulls is not so likely to fail as the supply of stocks for bears, especially in a limited market, when what is known as a " bear squeeze " takes place, and the " bears " are relieved, at exorbitant prices, of their obligations to deliver.

Other Speculative Operations.

A speculator may limit his possible loss by means of an " option." There are three kinds of options, the " put," the " call," and the " put and call," which is a double option.

The operator pays a certain sum for the privilege of selling (" putting ") or buying (" calling ") certain shares for a certain period at the price ruling when the option is purchased. Thus on 26th June, 1912, the price of Rand Mines shares was $6\frac{9}{16}$. The price of single options in those shares was 4s. 6d. to end of September, *e.g.*, by payment of £22 10s. 0d. a person could purchase the right of buying 100 Rand Mines shares at any time before the end of September at the price of $6\frac{9}{16}$. If the shares rose more than 4s. 6d. he would exercise his " call " and take them up or re-sell

at a profit. Conversely with the "put" The "put and call" is double the single option.

There are also operators in arbitrage dealings, *i.e.*, those who profit by temporary differences between the quotations for the same stock on different exchanges. This practice is most common between London and New York. For instance, if Erie Railroad shares are obtainable at the equivalent of 34½ in New York and can be sold in London for 34⅝, an *arbitrageur* may cable an order to New York, to buy 1,000 shares and sell them in London.

Then there are "stags" who are "premium-hunters." They apply, by paying a deposit, for stocks and shares which are offered for subscription at more or less attractive prices, in the hope that when they receive an allotment of stock (in the shape of an "Allotment Letter") they may sell at a "premium" *i.e.*, above the issue-price. Unless they are able to sell "for cash," the bargain will be for the special settlement, perhaps two or three months hence. In the meantime, they have to pay any instalments that may fall due.

Conclusion.

Finally, as to the responsibility of the broker or jobber. He alone is responsible for any bargain he may enter into, and whether he has made unfortunate speculations on his own account, or whether another member or a client has played him false, any failure to meet his engagements at the settlement will result in his being "hammered," *i.e.*, one of the "waiters" (or attendants) at the Stock Exchange makes three raps with a hammer upon his desk, in order to command silence, and the name of the defaulter is announced. He forthwith ceases to be a member, and his affairs are wound up by the Official Assignee.

A brief reference to provincial exchanges is perhaps necessary. These are established in many of the principal cities of the United Kingdom. Except as regards their own specialities, dealings in stocks are apt to be rather one-sided, *e.g.*, stock sold in the provinces finds its purchaser in London. There is constant inter-relation between the exchanges and London, and most of the provincial brokers have their agents on the London Stock Exchange, which thus acts as the great Clearing House for most of the transactions in stocks and shares throughout the United Kingdom.

BANK BOOK-KEEPING

CHAPTER XXX

HEAD OFFICE BOOK-KEEPING

BANK book-keeping does not differ in its main principles from ordinary commercial accounting, but in the matter of detail there is considerable variation. This is chiefly due to the enormous number of individual transactions to be dealt with which renders necessary the extensive use of subsidiary registers and ledgers.

In no two banks are the systems of book-keeping identical, but, still, there is such a similarity in the accounts of all banks, that anyone who is thoroughly familiar with the system pursued by one will have little difficulty in understanding the book-keeping of any other.

The system of book-keeping here described is not, however, that practised by any one bank, but is so modelled as to embrace, as far as possible, the different classes of accounts kept by bankers in general.

As there are many points in connection with bank book-keeping dealt with in other sections of this book, they are not here repeated, but reference is made to them in the text as occasion arises.

The Head Office.

In every large bank organised on up-to-date lines, the Head Office is a department quite distinct from the principal branch with which, however, in the minds of the public it is commonly confused, as both are generally located in the same building.

The Head Office, as properly understood, controls and supervises the branches; deals with applications for advances made by customers; fixes the rates to be charged on loans and bills, and to be allowed on deposits, and acts as clearing-agent for all inter-branch transactions. It also finances the branches, and

manages the surplus funds of the bank, making investments, purchasing bills, and advancing money to bill-brokers and stock-brokers at call and short notice. The functions of the Head Office largely centre in the General Manager or Board of Directors.

Proprietors' Capital.

The book-keeping of the Head Office is of a comparatively simple nature. In order to give a clear idea of its working, we will suppose the bank to be newly started, and that the capital has been issued and the stock or shares allotted. CAPITAL ACCOUNT, in what is known as the PRIVATE LEDGER, will be credited and CASH ACCOUNT debited. Subsidiary to this ledger will be the STOCK OR SHARE LEDGER, in which accounts are kept for each proprietor or shareholder. (For a description of the manner in which the accounts are posted, *see* page 347.)

In order to transfer the cash received to the principal (or any) branch, Head Office will debit BRANCHES ACCOUNT in the Private Ledger and credit CASH ACCOUNT (thus closing it). The branch receiving the cash will debit CASH ACCOUNT and credit HEAD OFFICE ACCOUNT.

Investments.

When the Head Office wishes to invest its surplus funds, it does so through the principal branch. A stockbroker is instructed to purchase certain Government Stocks, or Railway Debenture Stocks, etc., and when he has done so, the principal branch debits HEAD OFFICE ACCOUNT and credits CASH (or the stockbroker's account). The Head Office responds by crediting BRANCHES ACCOUNT and, at the same time, it debits INVESTMENTS ACCOUNT in the Private Ledger.

Details of all the bank's investments are kept in the INVESTMENTS LEDGER, which is subsidiary to the Private Ledger. It is commonly ruled as shown on the following page. When a bank invests in, say, Government Stock, what is really bought is a certain amount of stock *and* the dividend thereon to date (except, of course, when the stock is bought *ex div.*). In order, therefore, to show the exact state of affairs, the accrued interest must be calculated and debited to INCOME FROM INVESTMENTS ACCOUNT, while the INVESTMENT ACCOUNT is debited only

2½% CONSOLS.

DIVIDENDS PAYABLE—5th Jan., 5th April, 5th July, 5th Oct.

Dr. *Cr.*

Date.	Particulars.	Nominal Value.	Capital.	Dividends.	Date.	Particulars.	Nominal Value.	Capital.	Dividends.
		£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.
19... Jan. 1	To Balance . .	6,000 0 0	4,268 13 8	35 [1] 15 1	19... Jan. 5	By Cash—Quarter's Dividend to date .			37 10 0
June 30	,, Transfer to Income from Investments Account . .			74 11 9	Apr. 5	,, ditto . .			37 10 0
					June 30	,, Balance c/d	6,000 0 0	4,268 13 8	35 [2] 6 10
		6,000 0 0	4,268 13 8	110 6 10			6,000 0 0	4,268 13 8	110 6 10
July 1	,, Balance b/d .	6,000 0 0	4,268 13 8	35 6 10					

[1] $\frac{87}{365}$ of £150, a year's dividend.

[2] $\frac{86}{365}$ of £150.

with the true value of the stock. When the dividend is received, it is credited to INCOME FROM INVESTMENTS ACCOUNT, which then shows the actual dividend earned since the stock was purchased.

Interest on the investments is received through the principal branch, which, on receipt, credits it to HEAD OFFICE ACCOUNT. The Head Office debits BRANCHES ACCOUNT and credits INCOME FROM INVESTMENTS. (*See* Dividends' Column on p. 323.)

HALF-YEAR ADJUSTMENT OF INCOME FROM INVESTMENTS. (*See* " Profit and Loss Accounts," page 370.)

The Private Ledger also contains the Reserves, and Bank Premises Account, and the General Profit and Loss Account.

The Reserve is created by debiting PROFIT AND LOSS and crediting RESERVE.

A Journal is kept by the Head Office, through which are passed all entries affecting the Private Ledger.

It has been shown that when the Head Office finances the branches, it debits BRANCHES ACCOUNT. The branches use the funds, or part of them, in making loans. On the asset side of the branches' Balance Sheet (taking them as a whole), cash is reduced by the amount of the loans, and the latter stand in the place of cash as an asset. So far, there are no liabilities. The assets equal the BRANCHES ACCOUNT in Head Office books. Now, suppose money is received on deposit, CASH is debited and DEPOSITS ACCOUNT (a liability) is credited. This plainly does not affect the original difference between assets and liabilities (still represented by Branches Account balance). Further, should money be withdrawn by the Head Office, say, for investment, cash in branches would be reduced; while BRANCHES ACCOUNT, by being credited, would be reduced by the same amount. It is thus seen how *Branches Account always represents the difference between branch assets and liabilities*. It must be noted, however, that some adjustment of the assets and liabilities may be rendered necessary by the fact that there are certain items in transit between the branches. (*See* " Inter-Branch Transactions," p. 367.) The net balance of all the Head Office Accounts in the branches' books also equals the difference between the branches' assets and liabilities, subject to the same adjustments as mentioned above.

This, of course, must be the case since, whenever Head Office

debits BRANCHES ACCOUNT, the branches respond by crediting HEAD OFFICE ACCOUNT; and, whenever it credits BRANCHES ACCOUNT, the branches debit HEAD OFFICE ACCOUNT.

Balance Sheet and Profit and Loss Account.

These, strictly speaking, belong to Head Office book-keeping; but, as it would be reversing the order of things to treat of them here, they are dealt with in a separate chapter at the end.

CHAPTER XXXI

BOOKS RECORDING ASSETS

Cash and Cash Articles.

In country branches and small city offices, there is usually only one cashier or teller, who both receives and pays cash. He keeps a rough Cash Book in which he records every transaction of the office. The form of this book varies considerably, but the specimen below will give an idea of the principle on which it is worked.

TELLER'S CASH BOOK

Dr.

Bills due.	Lodgments.	Deposits Received.	Drafts Issued.	Commission.	Discount *from Contra.*	Debits Received.	Credits Remitted.		Totals.
								Previous Bal.	
								Bills due .	
								Lodgments .	
								Deposits . .	
								Drafts . .	
								Commission .	
								Discount .	
								Debits . .	
								Credits . .	

Cr.

House Drafts Paid.	Deposits Paid.	Drafts Paid.	Debits Remitted.	Credits Received.	Bills Discounted.	Discount *to Contra.*		Totals.
							House Debits .	
							Deposits . .	
							Drafts . . .	
							Debits . . .	
							Credits . . .	
							Bills Discounted .	
							To-day's Balance .	

The debit side shows the cash and cash articles received, and the opening balance of cash on hand; while the credit side shows

the cash paid away and the disposal of cash articles already appearing on the debit side. For example, "Debits received" will partly consist of cheques drawn by customers of the branch itself, and these cheques will also be entered under head of "House Drafts Paid." Under the head of "Lodgments" or "Deposits Received" will also appear items already detailed on the credit side of the Cash Book as "Credits Received."

The volume of business in *large* country branches and in the principal branch necessitates the employment of separate tellers for receiving and paying.

Cash Office at Principal Branch.

A customer lodging to his current account at a bank fills up a "paying-in" slip and hands it to the teller, who, having checked the money, initials the slip and enters particulars as follows in the Receiving Teller's Rough Cash Book.

RECEIVING TELLER'S ROUGH CASH BOOK.

Customer.	Amount.			Notes.	Coin.			Cheques, etc.		
	£	s.	d.		£	s.	d.	£	s.	d.
John Smith . . .	368	6	8	100	50	0	0	218	6	8
L. Markham . . .	600	0	0	240	30	0	0	330	0	0
J. Malcomson. . .	216	4	3	16	10	4	0	190	0	3
T. Curnow . . .	118	3	2	10	5	0	0	103	3	2
	1,302	14	1	366	95	4	0	841	10	1

The cheques, etc., are then passed to a clerk, who analyses them in the Receiving Teller's Cash Articles Analysis Book.

RECEIVING TELLER'S CASH ARTICLES ANALYSIS BOOK.

Name. (1)	Total. (2)			House Debits. (3)			Cheques to be cleared locally. (4)			Branches. (5)			Correspondents, etc. (6)			Postal Orders. (7)		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
John Smith .	218	6	8	88	4	3	32	3	8	56	1	2	38	0	0	3	17	7
L. Markham	330	0	0	26	9	6	280	4	3				23	6	3			
J. Malcomson	190	0	3	180	4	8	8	3	4	1	12	3						
T. Curnow .	103	3	2	8	7	6							94	15	8			
	841	10	1	303	5	11	320	11	3	57	13	5	156	1	11	3	17	7

In some banks, the teller analyses his own cash articles, and then his rough Cash Book contains the necessary columns for effecting the analysis.

Disposal of the Various Dockets taken in by a Receiving Teller.

The dockets received by the Teller require sorting and analysing and the usual method of procedure is described below.

1. The "PAYING-IN" SLIPS are sorted alphabetically and entered in the CREDITS ANALYSIS BOOK, a specimen ruling for which is shown on the next page. The total of this book must, of course, agree with the total of the teller's lodgments.

2. THE HOUSE DEBITS are also sorted alphabetically and entered in the DEBITS ANALYSIS BOOK, which is similar in ruling, etc., to the Credits Book. Its total agrees with the total of the teller's "House Debits" column.

A separate analysis book (or part of an analysis book) is kept for each teller, and at the end of the day the totals are carried into a SUMMARY CREDITS ANALYSIS BOOK and a SUMMARY DEBITS ANALYSIS BOOK. The grand totals of these books should agree with the "Total Transactions for Day," as shown by the CHIEF CASHIER'S ROUGH CASH BOOK and the MAIN CASH BOOK.

(For a further object served by these Analysis Books, *see* "Current Accounts," page 350.)

3. THE CHEQUES TO BE CLEARED LOCALLY go to the Clearing Department, and, finally, to the Clearing House. (*See* pp. 97–118.)

4. CHEQUES PAYABLE AT OR THROUGH BRANCHES are detailed in a DEBITS REMITTED TO BRANCHES BOOK, and passed to the Correspondence Department, or Branch Bank's Office, for dispatch to the branches. (The total amount is debited to HEAD OFFICE ACCOUNT.)

5. CHEQUES REMITTED TO CORRESPONDENTS, ETC.—In the case of a provincial bank, these may be cheques drawn on clearing bankers in London, or on country banks for which a clearing bank acts as agent. If so, they are sorted under the headings "Town,"

CREDITS ANALYSIS BOOK.

A.–D. (1)			E.–K. (2)			L.–Q. (3)			R.–Z. (4)			Companies. (5)			Public Institutions and Miscellaneous. (6)			Banks. (7)			General Ledger, P. & L. Ledger, and Loan Ledger. (8)			Total.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
118	3	2				600	0	0	368	6	8															
						216	4	3																		
118	3	2				816	4	3	368	6	8													1302	14	1

" Metropolitan," and " Country," and sent to the bank's clearing agent in London. Cheques drawn on an Irish or Scotch bank are sent to the bank's agent in Ireland or Scotland for credit in account. Details are entered in a DEBITS REMITTED TO CORRESPONDENTS REGISTER. Whenever cheques are sent to a correspondent, an entry is passed debiting his account with their value.

In cases where cheques cannot otherwise be collected, they are sent to the bank on which they are drawn for favour of a draft on London.

6. POSTAL ORDERS are either collected through the local post office or paid for by drafts on the Postmaster-General's Account.

The totals of columns 4, 5, 6, 7 in each teller's CASH ARTICLES ANALYSIS BOOK are agreed with the totals of the several books which contain the corresponding detailed records.

The Cash Books used by Paying Tellers differ somewhat in ruling from those used by the Receiving Tellers.

PAYING TELLER'S ROUGH CASH BOOK.

HOUSE DEBITS.				CHEQUES TO BE CLEARED LOCALLY.				BRANCHES.				CORRESPONDENTS.			
Name.	Amount.			Name.	Amount.			Name.	Amount.			Name.	Amount.		
	£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.
Jas. Anderson	48	4	6	Thos.											
John Frazer .	14	2	8	Goodwin	54	3	0	F. Gardiner	14	3	4	W. Kilroy .	118	6	3
A. Langan .	28	0	0												
F. Oswald .	54	1	6												
K. Barton .	2	3	8												
	146	12	4		54	3	0		14	3	4		118	6	3

A Paying Teller's House Debits are analysed in the same way as a Receiving Teller's, while the cheques to be cleared locally, and for branches and correspondents, are treated as indicated above.

" Special " or " House " Teller.

In every large office there is a " special " or " house " teller, whose duty it is to deal with all debit and credit vouchers originating in the bank itself, and with many other transactions which do not involve the receiving or paying of actual money. Through his hands pass—

(*a*) The documents created when bills are discounted for a customer (crediting the customer's current account, and debiting

BILLS DISCOUNTED ACCOUNT, with the value of the bills; and debiting his current account, and crediting DISCOUNT ACCOUNT, with the discount payable).

(*b*) Bills discounted due, and Collection Bills due, with the respective credits for BILLS DISCOUNTED ACCOUNT and BILLS HELD FOR COLLECTION ACCOUNT.

(*c*) The slips debiting SUNDRY PERSONS FOR BILLS RECEIVED FOR COLLECTION ACCOUNT, and crediting the various parties who have lodged the bills for collection (*i.e.*, when the bills have matured).

(*d*) Documents crediting various customers' personal accounts for cheques, dividend warrants, etc., received through the post; or with the proceeds of coupons collected.

(*e*) Documents debiting and crediting branches and correspondents for credits and debits received from them.

Clearing or Exchange Teller.

Through his hands pass all the cheques, etc., to be cleared locally either through the Clearing House or by "runners." He charges himself with the cheques as he receives them from the other tellers, and also with the "In-clearing," and debits—

(1) "CLEARING" (or EXCHANGE ROOM) with the "Out-clearing";

(2) RUNNERS ACCOUNT with the value handed to them; and

(3) House debits, branches and correspondents with their respective totals.

As the "runners" return, they lodge their charges to the credit of RUNNERS ACCOUNT.

The Daily Balance (or Summary Cash Book).

Each teller is provided with a BALANCE BOOK, in which he enters each evening, on the debit side, the cash he had on hand in the morning, and (if he be a receiving teller) the total of the lodgments he has received during the day; and on the credit side—

(*a*) The total house debits he has paid, or received, in lodgments, or through the clearing;

(*b*) Cheques cleared locally (the "Out-clearing");

(*c*) Cheques on branches and correspondents;

(*d*) Postal orders; and

(*e*) Balance of cash on hand, and cheques, etc., received too late for collection.

Should one teller hand over to another during the day, notes or coin value, say, £1,000, he would enter the amount on the credit side of his BALANCE BOOK, against the name of the teller to whom he handed the money. The teller receiving the amount would enter it on the debit side of his BALANCE BOOK, opposite the name of the teller from whom he received it.

The CHIEF CASHIER'S BALANCE BOOK contains on the debit side the total cash in his safe the previous night, and the total received into it during the day; and, on the credit side, the cash handed out to each teller during the day.

Each teller is also provided with a book in which he details the notes, coin, etc., which make up his daily "cash" balance.

From the Balance Books, the Chief Cashier, or his clerk, makes up the CHIEF CASHIER'S ROUGH CASH BOOK, which is in the following form—

Dr. CHIEF CASHIER'S ROUGH CASH BOOK. *Cr.*

To Receiving Tellers—	£			By House Debits per Receiving Tellers—	£		
Mr. ——	£			*Mr.* ——	£		
Mr. ——	£			*Mr.* ——	£		
Mr. ——	£			*Mr.* ——	£		
,, Clearing Teller for cheques, etc., presented against Bank in Clearing House	£			,, House Debits cashed by Paying Tellers—			
,, Runners for Drafts, etc., for collection as *per contra*	£			*Mr.* ——	£		
				Mr. ——	£		
				,, House Debits received through the Clearing House	£		
				,, Clearing Teller for "out" clearing	£		
				,, Runners for Drafts, etc., for Collection as *per contra*	£		
				,, Cheques sent by post to Branches	£		
				,, Cheques sent by post to Correspondents	£		
Total Transactions for day	£			Total transactions for day	£		
Balance at close of previous day	£			Balance at close of the day	£		
	£				£		

When making out this book, all "cross" entries between the cashiers are ignored. The total of the tellers' "Cash" balances is agreed with the *balance at the close of the day*, as disclosed by the Chief Cashier's Rough Cash Book.

Deposit Receipts Issued and Paid.

(*See* "Deposits," page 355, for the manner in which these are dealt with in the Cash Office.)

Drafts on Demand.

These form a popular mode of remitting money, especially with those who do not keep a banking account. The banker's profit from the issue of drafts is derived from the commission he charges, and the use he makes of the money while the drafts are outstanding.

It is usual for one teller to deal with all transactions connected with the issue and payment of drafts. The entries in his ROUGH CASH BOOK for drafts issued are similar to those made for current account lodgments, except that the commission has also to be recorded. At the close of the day, the total of the drafts is credited to BILLS PAYABLE ACCOUNT, if they are drawn on the branch itself; but if they are drawn on other branches, or on correspondents, the several branches or correspondents are credited with their respective totals. The total daily commission is credited to COMMISSION ACCOUNT.

Drafts paid are recorded on the credit side of the TELLER'S CASH BOOK and debited in total at the end of the day to BILLS PAYABLE ACCOUNT.

Circular Notes.

The entries made by the teller follow the same lines as for drafts issued in the branch itself. (*See* page 361.)

Settlement of Local Exchanges.

Local exchanges of cheques, notes, etc., in small towns are settled by means of EXCHANGE VOUCHERS, or BANKERS' PAYMENTS, as they are sometimes called. The debtor bank gives to each bank to which it owes a balance, a draft in the form shown at top of next page.

To the X Bank Receive of the Y Bank per _____Branch. The amount of annexed draft, being balance of Exchange, 1 Mar., 19.. £------ For Y Bank, _____ *Agent.*	No.____ London, 2 *Mar.*, 19.. Y Bank. Pay Ourselves the undermentioned amount. For X Bank, £------ _____ *Agent.*

The branch issuing the draft advises its Head Office (or, more correctly, the Principal Branch), at the same time crediting Head Office Account. The principal branch debits the branch and credits Bills Payable. The receiving bank sends the draft to its Head Office as a debit, and the transaction is finally settled through the city Clearing in the way outlined on pages 86–108; or in the manner described below, should the Head Offices be situated in a city, where there is no branch of the Bank of England.

In those cities where the Bank of England has *not* a branch, it is usual for one bank to act as clearing agent for all the other local banks. Instead of each bank settling individually with the others every day by means of cash or drafts on London, settlements are made only twice a week in accordance with the following system: The amounts presented *by* and *against* each bank are arranged in tabular form, which, on the assumption that there are five banks, members of the clearing, viz., A, B, C, D, and E, will appear as under—

	A.	B.	C.	D.	E.	Totals.
	£	£	£	£	£	£
A . . .		4,000	8,000	3,000	2,000	17,000
B . . .	15,000		2,000	4,000	9,000	30,000
C . . .	40,000	10,000		2,000	8,000	60,000
D . . .	25,000	5,000	10,000		5,000	45,000
E . . .	4,000	2,000	1,000	1,000		8,000
	84,000	21,000	21,000	10,000	24,000	160,000

Bank " A " has presented against the other banks the amounts shown horizontally (£17,000), and the other banks have presented against it the amounts shown vertically (£84,000), leaving, on the day, a balance owing by A of £67,000; B, C, and D are owed £9,000, £39,000, and £35,000 respectively; while E owes £16,000. The state of the balances at the close of each day is arranged in Journal form—

	Dr.	*Cr.*
	£	£
A . . .	67,000	—
B . . .	—	9,000
C . . .	—	39,000
D . . .	—	35,000
E . . .	16,000	—
	83,000	83,000

An account for each bank is kept in an EXCHANGE LEDGER. Interest, at deposit rate, is charged on debit balances, and allowed on credit balances; and settlement is made by drafts on London, which include interest up to the day they are due to be cashed there.

Loans to Customers.

These must be distinguished from overdrafts, which are usually made for indefinite periods, and very often on mere personal security. " Loans " are, as a rule, made for fixed periods, and on the security of stocks and shares transferred into the names of the bank's nominees; but, of course, they can be made on security of any nature. The bank gains a certain advantage by lending in this way, as it gets interest on the full amount of the loan outstanding, although the customer may at the same time have money lying to the credit of his current account.

When a loan is granted, it is entered in a Loan Register.

LOAN REGISTER.

Date.	Name.	Amount.	Rate.	Date repayable.	Amount repaid.	Date.

The customer's loan account in the LOAN LEDGER is debited and his current account (if he has one) credited.

FORM OF LOAN LEDGER.

Rate..... (*Customer's Name.*)

Date.	Particulars.	Debit.	Credit.	Balaoce.	Days.	Product.	Interest.

Interest on loans is calculated in a similar way to interest on overdrafts, and is paid either by cheque or direct debit to current account. INTEREST ON LOANS ACCOUNT is credited.

Loans to Bill Brokers and Stock Brokers.

(*Cash at call and short notice.*)

It is necessary for every bank to have a certain proportion of its liabilities represented either by cash or by assets capable of being easily turned into cash. Of this nature are loans to bill-brokers, which are practically "at call"; and loans to stock-brokers, which are usually made for a fortnight—from one Stock Exchange settlement to another. (*See* pages 140–142.)

The loans are entered in LOAN REGISTERS ruled as follows, a separate register being maintained for each class of loan.

Date.	Name.	Amount.	Rate.	Date paid off.

The broker is credited if he has an account at the bank. If not, he is paid by cheque or draft. LOANS TO BILL BROKERS ACCOUNT or LOANS TO STOCK BROKERS ACCOUNT is debited, as the case may be. From the registers, the loans are posted into ledgers to the debit of the borrowers' accounts. The interest is paid at agreed dates and credited to INTEREST ON LOANS ACCOUNT.

Loans Repaid.

When a loan is repaid, it is marked off in the register and the amount lodged to the credit of LOANS ACCOUNT.

Bills Discounted.

Bills offered for discount are recorded in a REGISTER OF BILLS PRESENTED FOR DISCOUNT, and submitted to the manager or directors for approval. If approved, they are examined as to stamping, endorsement, etc.; numbered consecutively; and entered in the BILLS DISCOUNTED REGISTER, ruled as shown on the next page.

Slips are then made out crediting each customer's current account with the full value of the bills discounted for him, and debiting him with the discount thereon. Each day, the register is cast, and dockets are prepared debiting the total of the bills to BILLS DISCOUNTED ACCOUNT (which appears in the GENERAL LEDGER) and crediting the total discount to DISCOUNT ACCOUNT (which is kept in the PROFIT AND LOSS LEDGER). All debit and credit slips are lodged with the house teller in the cash office.

When the bills have been entered in the REGISTER OF BILLS DISCOUNTED, they are diaried under their various "due" dates. The DIARIES are usually of such a simple form that there is no occasion to give the ruling. Columns are provided for the numbers of the bills, their amounts, and "remarks." The date appears at the top of the page, and each diary may contain from one to four months. The bills discounted fall into three classes, viz.—

1. Bills payable at (or collectable through) the bank's own branches.
2. Bills payable at towns where there are only branches of other banks.
3. Bills payable locally.

The bills payable through the bank's branches are entered in a BILLS REMITTED BOOK, and immediately forwarded by post to the branches, their place being taken by slips debiting each branch and containing sufficient details to identify the bills.

Those payable through other banks are entered in the BILLS REMITTED BOOK and dispatched for collection a few days before maturity, debit slips also taking their place.

The bills payable locally are retained till they become due.

BILLS DISCOUNTED REGISTER.

Date Discounted.	No.	Term.	Drawer.	Acceptor.	For whom Discounted.	Where Payable.	Amount.	Daily Amount.	Days to run.	Date due.	Rate.	Discount.	Daily Amount.	Days.	Rebate.

Having been diaried, the bills and debit slips are sorted into cases in order of the due dates—and placed in the bill safe.

BILL LEDGER.—For the purpose of showing at any time the total of the bills discounted for each customer, it is necessary to keep a Bills Received for Discount Ledger.

BILLS RECEIVED FOR DISCOUNT LEDGER, OR "DISCOUNT LEDGER."

			Dr.				*Cr.*			
Date.	No.	Acceptor.	Date due.	Amount.	Total.	Date due.	No.	Amount.	Total.	Balance under Discount.

The borrower is debited when the bills are discounted, and credited as they fall due. The postings are made either from the bills themselves, or from the BILLS DISCOUNTED and BILLS DUE REGISTERS. At the end of each month, the balances of the ledger are extracted, and the total is agreed with the balance appearing to the debit of BILLS DISCOUNTED ACCOUNT in the General Ledger.

ACCEPTANCE LEDGER.—Another ledger is usually maintained, in which accounts are kept under the name of each *acceptor*. Its ruling is similar to that of the Borrowers' Ledger.

(*N.B.* The bill ledgers form no part of the real book-keeping system of a bank. They are useful merely as books of reference.) Each day, the bills falling due on that date and payable locally, and the debit slips representing bills which have been remitted for collection, are taken out of the bill safe and entered in the Bills Due Register.

BILLS DUE REGISTER.

Date due.	No.	Drawer.	Acceptor.	For whom Discounted.	Payable.	Amount.	Daily Total.

The total is agreed with the total of the diary for the day. A slip is then prepared crediting BILLS DISCOUNTED, and this, with the bills and debits, is lodged with the house teller.

The bills payable locally are presented at the residences of the acceptors, through the clearing, or to the paying bankers personally, should they not belong to the clearing. The branches are debited for the bills already sent to them, while " other " banks are either debited in the bank's books or charged through the clearing.

Should a bill be dishonoured, it is returned to the customer and his current account debited, or else it is charged to OUTSTANDING BILLS ACCOUNT (in General Ledger) till such time as it is paid. Care must, of course, be taken to notify all parties to the bill of its dishonour.

RETIRED BILLS.—Bills are sometimes taken up before they are due or " Retired under Rebate." The banker allows a refund (called " rebate ") of portion of the discount he has received, varying in amount with the period the bill has to run (*see* p. 71). The bill is entered in the BILLS DUE REGISTER under date of payment and in a BILLS RETIRED BOOK, and the customer either pays cash or has his current account debited with the amount of the bill and credited with the rebate. DISCOUNT ACCOUNT is debited with the latter.

REBATE ON BILLS DISCOUNTED.—Some explanation is necessary as to the use of the last column in the REGISTER OF BILLS DISCOUNTED. At the close of each balancing period, the bank will have on hands a large number of bills maturing at a variety of dates in the following period: The discount which has been received on these has not all been earned at the date of the balance sheet, and, therefore, some adjustment is necessary. The discount on each bill is calculated (usually at the original rate) from the balancing date to the date of maturity, entered in the last column of the register, and summed. The total is debited to DISCOUNT ACCOUNT and credited to REBATE ON BILLS DISCOUNTED ACCOUNT (appearing as a liability on the balance sheet). On the opening day of the new period, the latter account is debited and DISCOUNT ACCOUNT credited.

Bills Received for Collection.

Bills are sometimes received from a customer, not for discount,

but for collection; and it is a common practice for the bank's own branches and correspondents to send for collection, bills which they have discounted.

Bills, when received for collection, are numbered consecutively and recorded in the Collection Bills Register.

COLLECTION BILLS REGISTER.

Date received.	No.	Drawer.	Acceptor.	From whom received.	Where Payable.	Date due.	Amount.	Daily Total.

The daily total is debited to BILLS HELD FOR COLLECTION ACCOUNT and credited to SUNDRY PERSONS FOR BILLS RECEIVED FOR COLLECTION ACCOUNT.

After entry in the register, the bills are diaried in COLLECTION BILL DIARIES (ruled similarly to those used for discounted bills).

Some of the bills will be payable at the bank itself, some at other banks in the same place or at their branches, and some at the bank's own branches. The latter are entered in the BILLS REMITTED BOOK and dispatched at once to the branches, and representative dockets (debits) take their place. The bills and representative dockets are then sorted into cases and locked up in the bill safe.

Collection Bills Ledger.

For the purpose of showing the amount of bills held for collection from each customer or bank (those received from branches can be all kept under one account) at any time, a special ledger is kept, in form similar to that used for Bills Discounted. The accounts are debited with the bills as received and credited with them as they fall due. The postings are made from the RECEIVED AND DUE REGISTERS. Periodically (usually monthly) the balances are extracted, totted, and agreed with the balance, as shown to the debit of BILLS HELD FOR COLLECTION ACCOUNT in the GENERAL LEDGER.

COLLECTION BILLS DUE.—Bills payable at distant places, where the bank has no branches, must be taken out of the safe a few

days before maturity, and either forwarded direct for collection or else sent through the local offices of other banks. Dockets debiting the banks are held in place of such bills.

Each day the bills payable locally, and the debit slips for bills already sent for collection, are taken out and entered in a COLLECTION BILLS DUE REGISTER. A slip is then prepared crediting the total to BILLS HELD FOR COLLECTION ACCOUNT, and this, with the bills and debits, is lodged with the house teller. The bills payable locally are collected either personally or through the clearing. The bank's branches are debited for the bills already forwarded to them; while other banks are either charged in the bank's books or pay, through the clearing, for the bills sent a few days previously to their distant offices.

So far, the parties lodging the bills have not been credited for them. They are credited the day after the bills mature, and SUNDRY PERSONS FOR BILLS RECEIVED FOR COLLECTION ACCOUNT is debited. This, however, does not apply to the bank's own branches. They are not credited till the debit dockets, which were substituted for the bills when originally remitted for collection, arrive, when the responding entry is made crediting the branches (or, rather, Head Office which clears for them), SUNDRY PERSONS FOR BILLS RECEIVED FOR COLLECTION ACCOUNT being debited.

Stamps on Cheque Books.

Cheque books are sent to the Custom House to be stamped. The cost of stamping is debited to STAMPS ON CHEQUES ACCOUNT The customer, on receiving a book, either pays cash for it or passes a debit on his current account, STAMPS ON CHEQUES ACCOUNT being credited.

Stamps on Deposit Receipts and Drafts on Demand.

The cost of stamps on deposits receipts is, in the first instance, debited to DEPOSIT RECEIPT STAMPS ACCOUNT. When the Cash Office obtains a supply, this account is credited, and EXPENSES ACCOUNT or CONTINGENCIES ACCOUNT debited.

The cost of stamps on drafts is debited to STAMPS ON DRAFTS ACCOUNT; and, as a rule, COMMISSION ACCOUNT is debited weekly with the stamps on the drafts which have been issued, and STAMPS ON DRAFTS ACCOUNT credited.

Securities.

The securities deposited with a bank may be divided into two classes, viz.—

(1) Securities pledged as cover for loans, overdrafts, and other advances; and

(2) Securities deposited for safe keeping.

The customer pledging securities to the bank fills up and signs a docket giving full particulars of the securities. He also signs and hands to the bank a MEMORANDUM OF DEPOSIT recording the various conditions of the loan and giving the bank power to sell should the loan be not repaid upon the agreed date. (*See* page 149.) Bearer bonds pass by mere delivery, and the banker taking them in good faith and without notice of any defect of title on the part of the holder possesses a good title. To obtain a *legal* title to registered stocks and shares, however, it is necessary that they should be transferred into the names of the bank's nominees. The securities lodged are compared with the particulars entered on the lodgment docket, and placed in a safe under the joint control of two officers of the bank.

Entries are then made in the SECURITIES INWARDS JOURNAL in the following manner—

Date.	Customer's Name.	Folio.	Particulars of Security.	Folio.	Nominal Value.		
19..					£	s.	d.
Jan. 15	James Smith . . .	368	Buenos Ayres Western Railway Ordinary Stock . .	42	1,000	0	0
Feb. 16	Thomas Johnston . .	382	ditto ditto . .	42	300	0	0
Aug. 4	ditto ditto . .	382	Great Southern & Western Rly. (Ire.) Guaranteed Stock	68	40,000	0	0

These items are posted in the PLEDGED SECURITIES LEDGER, which is divided into two parts. In the first part, all the customers lodging a particular security appear under the head of that security; while, in the second part, all the securities deposited by each customer appear under his name.

PLEDGED SECURITIES LEDGER—(1st Part).

BUENOS AYRES WESTERN RAILWAY ORDINARY STOCK.

James Smith.

Date.		Deposited.			Withdrawn.			Balance.		
19..		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 15		1,000	0	0				1,000	0	0

Thomas Johnston.

Date.		Deposited.			Withdrawn.			Balance.		
19..		£	s.	d.	£	s.	d.	£	s.	d.
Feb. 16		300	0	0				300	0	0
July 24					100	0	0	200	0	0

GREAT SOUTHERN AND WESTERN RAILWAY (IRE.) GUARANTEED STOCK.

Thomas Johnston.

Date.		Deposited.			Withdrawn.			Balance.		
19..		£	s.	d.	£	s.	d.	£	s.	d.
Aug. 4		40,000	0	0				40,000	0	0

2nd Part.

JAMES SMITH.

Buenos Ayres Western Railway Ordinary Stock.

Date.		Deposited.			Withdrawn.			Balance.		
19..		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 15		1,000	0	0				1,000	0	0

THOMAS JOHNSTON.

Buenos Ayres Western Railway Ordinary Stock.

Date.		Deposited.			Withdrawn.			Balance.		
19..		£	s.	d.	£	s.	d.	£	s.	d.
Feb. 16		300	0	0				300	0	0
July 24					100	0	0	200	0	0

Great Southern and Western Railway (Ire.) Guaranteed Stock.

Date.		Deposited.			Withdrawn.			Balance.		
19..		£	s.	d.	£	s.	d.	£	s.	d.
Aug. 4		40,000	0	0				40,000	0	0

This system of keeping securities enables the bank to see at a glance how much of any particular security it holds as cover for advances, and facilitates the allocation of dividends to the various customers who have transferred stock or shares into the names of the bank's nominees.

SECURITIES OUTWARDS JOURNAL.—When securities are withdrawn, they are entered in a SECURITIES OUTWARDS JOURNAL, and the entries originally made are reversed.

SECURITIES DEPOSITED FOR SAFE CUSTODY.—A lodgment docket, detailing the securities, is filled up as in the case of

pledged securities. This is checked with the securities, and a receipt containing similar details is given to the customer. When securities are withdrawn, the receipt is surrendered.

The book-keeping in connection with securities deposited for safe custody can be carried out on the same lines (as explained above) for securities pledged to the bank ; but as the bank requires no information as to the actual amount of these it holds, and there are no dividends to be allocated (that is, no single dividend warrant to be divided amongst several different parties), some simpler method is usually adopted.

CHAPTER XXXII

BOOKS RECORDING LIABILITIES

Proprietors' Capital.

THE capital of the bank will consist of either stock or shares, and, if the latter, it is commonly the case that only a portion of the amount subscribed has been " paid up." For example, the capital may be 300,000 shares of £50 each (£15,000,000), and the amount paid up, £10 per share—£3,000,000. Sometimes part or all of the uncalled capital forms what is known as a " Reserved Liability," that is, a liability which can only be called up in event of the liquidation of the bank. (*See* page 204.)

The amount of capital held by each proprietor or shareholder is entered to his credit in the Share Ledger. (*See* next page.)

TRANSFER OF STOCK OR SHARES.—When registered stock (or a number of shares) is transferred from one holder to another, a deed of transfer is signed by both parties, and this, together with the certificate originally issued to the proprietor, is lodged with the bank for the purpose of having the transferee registered as the new holder.

The transfers are numbered and entered in a Transfer Register.

TRANSFER REGISTER.

No. of Transfer.	Date Transfer Registered.	Transferor's Name, Address, and Occupation.	Transferee's Name, Address, and Occupation.	Distinctive Numbers of Shares Transferred.		Amount.
				From	To	
(1)	(2)	(3)	(4)	(5)	(6)	(7)

In the case of stock, columns 5 and 6 would be dispensed with.

If the Board sanctions the transfer, the old certificate is cancelled, and a new one issued to the buyer.

SHARE LEDGER.

Shares Acquired.					Shares Transferred.					Balance.	
Date.	Transfer No.	No. of Shares.	Distinctive Numbers. From	Distinctive Numbers. To	Date.	Transfer No.	No. of Shares.	Distinctive Numbers. From	Distinctive Numbers. To	No. of Shares.	Amount paid up.
											£
19—. Jan. 15	860	2,000	284,300	286,299						2,000	20,000
					19—. June 25	1,060	500	284,300	284,799	1,500	15,000

Should the capital consist of stock, the ledger would be in the following form—

Stock Acquired.					Stock Transferred.					Balance.		
Date.	Transfer No.	Amount. £	Amount. s.	Amount. d.	Date.	Transfer No.	Amount. £	Amount. s.	Amount. d.	£	s.	d.
19—. Feb. 16	426	4,380	0	0						4,380	0	0
					Aug. 14	923	380	0	0	4,000	0	0

The transferor's account in the SHARE (or Stock) LEDGER is debited, and the transferee's account credited.

For a few weeks previous to the date on which the dividend is payable, the books are "closed" (*i.e.*, no transfers are allowed). This is necessary to enable the bank to make out the dividend warrants.

Statutory Statements.

Banks registered under the Companies Acts must once every year make out and lodge with the Registrar of Joint Stock Companies a list of all persons who are members, and their holdings, and a statement of all transfer operations since the previous return.

On the first Monday in February and the first Tuesday in August in every year, they must also make a statement in the following form—

The share capital of the Company is £_____ divided into shares of _____ each.

The number of shares issued is _____.

Calls to the amount of £_____ per share have been made, under which the sum of £_____ has been received.

The liabili ies of the Company on the 1st day of January (or July) were £_____

Debts owing to sundry persons by the Company—

On Judgment, £_____

On Speciality, £_____

On Notes or Bills, £_____

On Simple Contracts, £_____

On Estimated Liabilities, £_____

The assets of the Company on that day were—

Government Securities (*stating them*)

Bills of Exchange and Promissory Notes, £_____

Cash at the Bankers, £_____

Other Securities, £_____

A copy of the statement must be put up in a conspicuous place in the registered office of the company, and in every branch office or place where the business is carried on.

The Bank's Own Notes.

Comparatively few English banks possess a note issue, and the

total amount of notes circulated by such banks as have authority to issue them is, if we except the Bank of England, almost negligible, amounting to only a few hundred thousand pounds in value. In Ireland and Scotland, however, almost every bank issues large amounts of notes, and the note circulation forms one of the chief sources of revenue.

The book-keeping, in conjunction with notes, is of a simple nature, but yet it involves an immense amount of labour.

A few banks print their own notes, but most of them get the work done by firms which specialise in note engraving. The cost of printing or purchasing the notes is, of course, a charge against profits, as is also the composition in lieu of stamp duty, paid to the Government.

When the Chief Cashier receives notes into his safe, CASH ACCOUNT is debited and NOTE CIRCULATION credited. The dates and numbers of the notes and their value are recorded in a register; and, as each lot of notes is given out to the tellers, an entry of their dates, numbers, and value is made on the opposite page of the register.

Now, it is evident that until the notes are actually paid out to the public, they do not constitute a liability of the bank. When, therefore, the Balance Sheet is being prepared, the bank's own notes in hand are deducted from the balance shown to credit of NOTE CIRCULATION ACCOUNT (*see* Cancelled Notes in Suspense Account below); and, since they do not really represent *cash*, they are also deducted from the "Cash in hand" on the assets side of the Balance Sheet. (*See* "Detailed Balance Sheet," p. 376.)

NOTES CANCELLED.—It is the practice of the Bank of England to cancel all notes immediately they are returned, no matter how clean they may be; but other banks cancel them only when they become too soiled or worn for further use.

Method of Cancellation. The signature of the chief cashier (or manager) is cut out, and the notes are branded "Paid" with a rubber stamp. They are then sent to the CANCELLED NOTES DEPARTMENT, where they are sorted according to their cyphers *and* numbers. They are then entered in registers and, from the registers, are posted individually into ledgers. The posting consists in marking off, against the numbers of the notes, the dates on which they are paid.

CANCELLED NOTES IN SUSPENSE ACCOUNT.—When cancelled notes are received from the branches by the Cancelled Notes Department, this account is debited, and the branches credited (through Head Office Account). When the notes have been sorted and punched, and finally stored away in the note library, the Suspense Account is credited and Note Circulation Account debited. At the date of the Balance Sheet, the balance of CANCELLED NOTES IN SUSPENSE ACCOUNT and the bank's own notes in hand must be deducted from NOTES IN CIRCULATION ACCOUNT to arrive at the proper amount in the hands of the public.

Current Accounts.

The "paying-in slips" and cheques, when dealt with (as explained) by the Cash Office, are passed to the ledger-keepers in the Accountant's Department. Here the cheques are examined as to date, signature, endorsement, etc.; and, if there are sufficient funds to meet them, they are posted to the debit of the several customers' accounts. The paying-in slips are examined as to date, cashier's initials, etc., and posted to the customers' credit.

There are many different rulings of CURRENT ACCOUNT LEDGERS, but the following is one very largely used—

(*Name*).

*Permission*_____ *Date granted*_____ *Rate*_____

Date.	Particulars.	Debits.	Credits.	*Dr.* or *Cr.*	Balance.	Days.	Product.	Interest.

Each day the vouchers, when posted by the ledger-keepers, are written up in detail in SUBSIDIARY CASH BOOKS (sometimes called Lodgment and Payment Books), and the debit and credit totals of these books are agreed with the relative totals in the DEBIT AND CREDIT SUMMARY ANALYSIS BOOKS. The grand total of all the credit entries in the subsidiary cash books is posted in the General Ledger to the credit of CURRENT ACCOUNTS (*Personal*), and the

grand total of all the debit entries to the debit of the same account.

SUBSIDIARY CASH BOOK OR LODGMENT AND PAYMENT BOOK.

LODGMENTS.			PAYMENTS.		
Names.	Amount.	Daily Total.	Names.	Amount.	Daily Total.

The paying-in slips and cheques are then sorted under the customers' names into cabinets, where they remain till required by the Pass Book Department. (*See* page 352.)

OVERDRAFTS.—When a customer is allowed to overdraw his current account, the extent of the " permission," the date on which it is granted, and the rate of interest to be charged are marked at the head of the account.

(For the manner in which interest is calculated on an overdraft, *see* pages 121–124.)

Interest is sometimes allowed on credit balances. The method of calculating it is similar to that employed where an account is overdrawn.

The interest due on overdrawn accounts is debited at the close of the half-year to the customers, and credited to INTEREST ON OVERDRAFTS; while the interest allowed on credit balances is credited to the customers, and debited to INTEREST ALLOWED ON CREDIT BALANCES.

On referring to the specimen of BRANCH WEEKLY STATEMENT (p. 367), it will be observed that instead of showing the balance of " Current Accounts " in the General Ledger, it shows separately the debit and credit balances of the current accounts. This is done for the purpose of exhibiting in detail the assets and liabilities of the branch, and to enable the Head Office to make out a correct Balance Sheet.

Balancing Ledgers.

It would obviously be extremely difficult to balance the ledgers,

especially where they are numerous, if there were no figures with which to agree, except those provided by the General Ledger. If an error occurred, there would be no means of tracing it to any particular ledger, and the amount of labour and time spent in locating it would be immense. To enable each ledger to be balanced independently, Debit and Credit CONTROL BOOKS are maintained. (For Debit Control Book, *see* next page.)

When an account is overdrawn, the balance at the half-yearly closing date is added to the credit column of the CURRENT ACCOUNT LEDGER, thus making it equal the debit column. The account is then ruled off, and the balance brought down in the debit column. The figures shown represent the *sum* of these balances. In a similar way, the *sum* of the credit balances in each ledger is brought into the CREDIT CONTROL BOOK.

Both these control books are written up every day from the Subsidiary Cash Books, and totted whenever it is desired to balance the ledgers. The totals of their cross tots must always agree with the summations of the "Current Accounts" and "Banks" in the General Ledger.

To provide against fraudulent transfers being made from one account to another (a class of fraud which cannot be detected by working on balances alone), the debit and credit sides of the ledgers are occasionally totted and extracted by independent clerks and agreed with the Control Books.

Pass Book Department.

In a large office it is necessary to have a separate department to deal with the Pass Books, as the number of entries which have to be recorded is immense, and a considerable amount of care has to be exercised to guard against errors. There appears to be no uniformity in the method of writing up these books. In some cases, they are copied from the ledger account, while in others the entries are made from the original cheques and paying-in slips. The former method is, of course, the easier ; but it necessitates the using of the ledger when the ledger-keeper might otherwise be posting it, and, besides, any error in the ledger will be repeated in the Pass Book. The writing up of the Pass Books from the original vouchers is much to be preferred. When done by clerks other than the ledger-keepers, it constitutes a check on the

DEBIT CONTROL BOOK.

	A–D			E–K			L–Q			R–Z			Companies.			Public Institutions, etc.			Banks Ledger I.			Banks Ledger II.			Totals.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
	506,320	4	8	85,283	4	6	850,608	2	3	96,300	4	8	853,486	1	2	98,600	4	1	318,206	3	4	268,114	17	0	3,076,919	1	8
Jan. 1																											
,, 2																											
,, 3																											
,, 4																											
,, 5																											
,, 6																											
,, 8																											
,, 9																											

accuracy of the posting and, at the same time, guards, to a very large extent, against the fraudulent manipulation of accounts.

As far as possible, the Pass Books should be so kept that the summations of the " sides " would agree with the summations of the ledger accounts ; and, whenever a book is being given to a customer, its balance and summations should be compared with those of the ledger. To carry out this principle, the balance must be shown " short," and not added to the smaller side, ruled off, and brought down.

The Bank's Agents and Correspondents.

Current accounts, recording all transactions between the bank and its agents and correspondents, are maintained at the principal branch. All cheques sent to agents and correspondents for collection by the *principal* branch are immediately debited to their accounts. When, however, any *other* branch remits cheques for collection to an agent (or correspondent), it details the number and amount on a slip, which it forwards to the principal branch as a debit on HEAD OFFICE ACCOUNT (including it with its other debits). The principal branch responds by crediting HEAD OFFICE ACCOUNT, and the amount of the slip is posted to the debit of the AGENTS' ACCOUNT. When the principal branch receives cheques from a correspondent, it credits his account. Other branches credit HEAD OFFICE ACCOUNT, forwarding slips to the principal branch, where entries are made debiting HEAD OFFICE ACCOUNT and crediting the correspondents. (For the manner in which the *principal* branch deals with drafts on demand drawn on correspondents, and *vice-versâ*, *see* " Drafts on Demand.")

The *other* branches, on issuing a draft, fill up a credit slip and remit it to the principal branch with their other credits, and the principal branch credits the correspondent. When *other* branches pay a draft issued by a correspondent, they forward it as a debit on HEAD OFFICE ACCOUNT, and the principal branch debits the correspondent. Subsidiary Cash Books are maintained in connection with Agents' and Correspondents' Ledgers, and are each evening agreed with the " Banks " column in the Analysis Books. They provide the figures from which control accounts are written up, enabling each ledger to be balanced separately.

Deposit Accounts and Deposit Receipts.

When lodging money on deposit in a bank, the customer fills up and signs a "Deposit Requisition Form" or "wanted" slip—

(*Place and Date.*)

(*Number.*)

DEPOSIT RECEIPT WANTED in favour of (*Name and Designation of Depositor*)

*Residence*_____

For the sum of (*amount in words*)

£_____

Signature of Applicant

_____

*Teller's Initials*_____

He hands this with the money to the deposit teller, who, having checked the value and entered the amount on the debit side of his Rough Cash Book, initials the slip and passes it to a junior clerk for the purpose of having a receipt written therefrom. All Deposit Receipts are signed by the clerk who writes them, and countersigned by the manager or some other responsible official. The receipts are type-numbered consecutively, and, as each receipt is written, its number is put on the Requisition Form.

When a Deposit Receipt is presented for payment, the customer endorses it and hands it to the teller. Reference is made by the teller or some other clerk to the DEPOSITS REGISTER or Ledger Account to ascertain if there is any "stop" or claim marked against the receipt. If all is in order, the accrued interest is calculated and checked, and the principal and interest paid over to the customer. The teller enters the amounts on the credit side of his Rough Cash Book. Should the customer desire to withdraw only portion of his deposit, he fills up a Requisition for a new receipt for the amount he wishes to leave in the bank, and surrenders the old receipt duly endorsed.

Particulars of all Deposit Receipts issued and paid are entered in the DEPOSITS REGISTER.

DEPOSITS REGISTER.

Receipts Issued.						Receipts Paid.					
Date of Issue.	No.	Depositor (Name, etc.).	Amount.	Daily Total.	Date Paid.	Date Paid.	No.	Depositor (Name, etc.).	Amount.	Daily Total.	*Interest.* Amount.	*Interest.* Daily Total.

[*Note.*—This ruling represents opposite pages of a book.]

The date on which a receipt is paid is entered opposite the original entry of issue. At the close of the day, dockets are created—

(*a*) Crediting DEPOSITS ACCOUNT with the total issued;

(*b*) Debiting DEPOSITS ACCOUNT with the total paid; and

(*c*) Debiting INTEREST ON DEPOSITS ACCOUNT with the total interest paid.

Having been so far dealt with in the Cash Office, the vouchers (both issued and paid) are sent to the Accountant's Department. Here they are sorted alphabetically and entered in the DEPOSITS ANALYSIS BOOK, of which the ruling on the next page represents two opposite pages.

[*Note.* In a small office where there are only one or two deposit ledgers, there would be no necessity for an analysis book.] Having passed through this book, the vouchers are posted in DEPOSIT LEDGERS, of which the following is a common form—

Date.	No. of Deposit Receipt.	Deposited. (*Cr.*).	Withdrawn. (*Dr.*).	Balance. (*Cr.*).	Interest Paid.

In a separate part of the Analysis Book the totals of its several columns are kept summed from day to day, and the difference between the grand total of each credit column and its corresponding debit column must, at any time, show the balance of the relative ledger. Periodically, the ledger balances are individually extracted, and the total of each ledger is agreed with the Analysis Book. The difference between the total of *all* deposits issued and paid must, of course, agree with the balance of DEPOSITS ACCOUNT in the General Ledger.

DEPOSIT INDEX BOOKS.—A separate index is kept for each ledger where the number of deposit accounts is large.

INTEREST ON DEPOSITS ACCRUED DUE, BUT NOT PAID AT THE DATE OF THE BALANCE SHEET.—At the date of each Balance Sheet, there will be due from the bank to the depositors, interest on the outstanding deposits to date. This is best provided for by calculating from day to day, at the varying rates, the interest on the

DEPOSITS ANALYSIS BOOK.

Deposit Receipts Issued.									Deposit Receipts Paid.									
No.	Name.	A–C	D–F	G–J	K–N	O–R	S–Z	Total.	No.	Name.	A–C	D–F	G–J	K–N	O–R	S–Z	Total.	Interest.

fluctuating balance of Deposits Account ; and, after making allowance for deposits paid without interest, debiting the total each half-year to PROVISION FOR INTEREST ON DEPOSITS ACCOUNT in the PROFIT AND LOSS LEDGER, and crediting INTEREST ON DEPOSITS ACCOUNT in the GENERAL LEDGER. During the currency of the half-year, interest on deposits will be debited to the latter account.

ILLUSTRATION OF THE ABOVE METHOD OF CALCULATING INTEREST ON DEPOSITS.

Date.	Rate.	Total Amount of Deposit Receipts outstanding on each day.			Total.			Interest.		
		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 1	2	5,326,480	0	0						
,, 2		5,300,268	0	0						
,, 3		5,304,324	0	0						
,, 4		5,309,306	0	0						
,, 5		5,316,258	0	0						
,, 6		5,118,305	0	0						
,, 7		5,216,604	0	0						
,, 8		5,288,583	0	0	42,180,128	0	0			
								2,311	4	10
,, 9	2½	5,328,506	0	0						
,, ,,	.	. . .								
,, ,,	. .	. . .								
								£		
		Deduct Interest on Deposits paid without						£		
								£		

DEPOSITS PAID WITHOUT INTEREST.

No. of Receipt.	Date Issued.	Date Paid.	Amount.			Rate.	Days.	Product.	Interest.		
			£	s.	d.				£	s.	d.
57,863	Jan. 9	Jan. 27	186	0	0	2½	18	3,348			
57,988	,, 17	Feb. 5	200	0	0		19	3,800			
									£		

Drafts on Demand.

1. DRAFTS ON DEMAND ISSUED BY PRINCIPAL BRANCH ON ITSELF.—When a draft is issued by the principal branch on itself, particulars are entered in a DRAFTS ON DEMAND ISSUED BOOK—

Date.	No.	Favour of.	Date Paid.	Amount.	Daily Total.	Prem.	By whom obtained.

At the close of the day a docket is created, crediting BILLS PAYABLE ACCOUNT with the total issued.

2. DRAFTS ON DEMAND ISSUED BY THE PRINCIPAL BRANCH ON OTHER BRANCHES OR ON CORRESPONDENTS.—Particulars of these are entered in a book ruled as follows—

Date.	No.	Branch or Correspondent.	Favour of.	Amount.	Daily Total.	By whom obtained.

The daily total drawn on each branch or correspondent is credited to the branch or correspondent, and advice notes, giving full particulars of the drafts issued, are sent forward. The branch responds by debiting HEAD OFFICE, and at the same time it credits BILLS PAYABLE ACCOUNT.

3. ADVICES RECEIVED OF DRAFTS ON DEMAND ISSUED BY OTHER BRANCHES OR BY CORRESPONDENTS ON THE PRINCIPAL BRANCH.—These come as credits from the branches, etc. The branches or correspondents are debited and BILLS PAYABLE ACCOUNT credited. Details are entered in ADVICES RECEIVED OF DRAFTS ON DEMAND ISSUED BOOK.

Date Issued.	Where Issued.	No.	Favour of.	Amount.	Daily Total.	Date Paid.

4. DRAFTS ISSUED BY PRINCIPAL BRANCH ON ITSELF, PAID.—These are entered in a DRAFTS ON DEMAND PAID BOOK.

Date Paid.	Where Issued.	No.	Favour of.	Amount.	Daily Total.

At the close of the day, the total is debited to BILLS PAYABLE ACCOUNT.

5. DRAFTS ISSUED ON THE PRINCIPAL BRANCH BY OTHER BRANCHES OR BY CORRESPONDENTS, PAID.—These are detailed in a book similar to No. 4, and BILLS PAYABLE ACCOUNT is debited with the daily total.

[*Note.* Other branches deal with drafts on exactly the same lines.]

Circular Notes.

These are commonly issued to persons intending to travel. With the notes, the customer is given a LETTER OF INDICATION, addressed to the banks' agents and correspondents, authorising them to honour the notes when signed by the customer. The letter contains a specimen of the customer's signature.

Particulars of the notes issued are entered in a CIRCULAR NOTES ISSUED REGISTER. The customer either pays cash or has his current account debited. CIRCULAR NOTES ACCOUNT is credited. When the notes are paid, the correspondent is credited and CIRCULAR NOTES ACCOUNT debited.

Acceptances on Behalf of Customers.

These are bills which the bank has accepted for the convenience of customers doing a trade abroad. Foreign traders naturally prefer a bank's acceptance to that of an individual or firm, and the Balance Sheets of all the large English banks show an immense amount of liabilities under this head.

It is usual for the customer to lodge adequate security with the bank, but sometimes his financial standing is regarded as sufficient guarantee. When the advices are received, particulars of the bills are recorded in the ACCEPTANCES ADVISED REGISTER. When the

bills are accepted, they are marked off in this book and entered in a Bills Accepted Register.

BILLS ACCEPTED REGISTER.

Date.	No.	Term.	For whose a/c.	Drawer.	Address.	Payee.	Date Due.	Amount.

A suspense account, which may be called SECURITIES FOR BILLS ACCEPTED, is debited, and BILLS ACCEPTED ACCOUNT is credited. A commission is usually charged by the bank for accepting. The customer's current account is debited therewith and COMMISSION ACCOUNT credited. In order to know at any time the amount accepted for a customer, the bills are posted in an ACCEPTANCES ON BEHALF OF CUSTOMERS LEDGER, which is ruled similarly to a Bills Discounted Ledger. When the bank accepts, the customer's account is debited and, when the bill is paid, it is credited while, at the same time, his current account is debited, and a further entry is made debiting BILLS ACCEPTED and crediting SECURITIES FOR BILLS ACCEPTED.

CHAPTER XXXIII

MAIN CASH BOOK AND GENERAL LEDGER

Main Cash Book.

In the smaller branches the Main Cash Book is posted partly from the registers direct and partly from slips, and agreed with the Teller's Rough Cash Book; but in a large office the entries are made from—

(1) A book[1] which is written up from debit and credit slips; and

(2) A return, made by the clerk keeping the Analysis Books, showing the total lodgments received and cheques paid on current accounts (personal), and the total debits and credits on the accounts of other banks.

The Main Cash Book is a complete record of each day's transactions, and the total must agree with the Chief Cashier's Rough Cash Book. (For form of Main Cash Book, *see* next page.)

General Ledger.

Every branch keeps a General Ledger, which contains a summarised record of all transactions which have been posted in detail in subsidiary ledgers (for example, Current Accounts, Deposit Accounts, etc.), and of all transactions which have been entered individually in registers of various kinds (for example, Bills Discounted, Bills Payable, Bills Accepted on behalf of Customers, etc.).

It is posted daily from the Main Cash Book, and contains separate accounts for all the items there shown, and, in addition, a "Cash" account, which is debited with the total receipts and credited with the total payments of each day, thus completing the double entry. The balance of the Cash Account at any time shows the amount of cash in hand.

[1] This book is ruled in five columns for: (1) Names of Accounts; (2) Details; (3) Items affecting the General Ledger; (4) Items affecting Profit and Loss Accounts; (5) Items affecting Loans. Its totals (*Dr.* and *Cr.*) are agreed with the Debit and Credit Analysis Books (col. 8).

FORM OF MAIN CASH BOOK. (*Principal Branch.*)

Dr. CASH. *Cr.*

General Ledger Account.	Folio.	£	s.	d.	General Ledger Account.	Folio.	£	s.	d.
To Note Circulation					By Note Circulation				
„ Bank of England					„ Bank of England				
„ Other Banks					„ Other Banks				
„ Current Accounts (Personal)					„ Current Accounts (Personal)				
„ Deposits					„ Deposits				
„ Loans to Customers					„ Loans to Customers				
„ „ to Stockbrokers					„ „ to Stockbrokers				
„ „ to Bill-brokers					„ „ to Bill-brokers				
„ Bills Discounted					„ Bills Discounted				
„ Outstanding Bills					„ Outstanding Bills				
„ Bills held for Collection					„ Bills held for Collection				
„ Sundry Persons for Bills received for Collection					„ Sundry Persons for Bills received for Collection				
„ Bills Payable					„ Bills Payable				
„ Circular Notes					„ Circular Notes				
„ Bills accepted on behalf of Customers					„ Bills accepted on behalf of Customers				
„ Securities for Bills accepted					„ Securities for Bills accepted				
„ Exchange Room or Clearing					„ Exchaoge Room or Clearing				
„ Stamps on Cheques					„ Stamps on Cheques				
„ Deposit Receipt Stamp Account					„ Deposit Receipt Stamp Account				
„ Draft on Demand Stamp Account					„ Drafts on Demand Stamp Account				
„ Deposit Interest Account					„ Deposit Interest Accouot				
„ Cancelled Notes in Suspense					„ Cancelled Notes in Suspense				
„ Dividend Account					„ Dividend Account				
„ Head Office					„ Head Office				
„ Rebate					„ Rebate				
„ Profit and Loss					„ Profit and Loss				
„ Total debited to Cash Account					„ Total credited to Cash Account				
Cash Balance previous day					Cash Balance this day				

FORM OF GENERAL LEDGER.

Date.	Particulars.	*Dr.*	Particulars.	*Cr.*	*Dr.* or *Cr.*	Balance.

GENERAL LEDGER BALANCE BOOK.—Once a week the balances of the General Ledger are extracted into this book, and form a "trial" balance. (*See* "Weekly Statement," page 367.)

CHAPTER XXXIV

INTER-BRANCH TRANSACTIONS AND BRANCH RETURNS

To see clearly how the Head Office acts as clearing agent for the branches, we will suppose Branch A *sends to* the principal branch, cheques value £800, a credit for £300, and cancelled notes for £200; and *receives from* the principal branch, cheques value £600 and a credit for £175. Further, that Branch A *sends to* Branch B cheques value £730 and a credit for £50, and *receives from* Branch C cheques value £735.

Branch A records these transactions in a DEBITS RECEIVED BOOK, CREDITS RECEIVED BOOK, DEBITS REMITTED BOOK, and CREDITS ADVISED BOOK; while the entry for the cancelled notes is made in the Cash Book direct. From these various records each day is written up the Daily Statement of Head Office Account.

DAILY STATEMENT OF HEAD OFFICE ACCOUNT.

Dr. SUNDRY DEBITS. *Cr.*						BRANCH.	*Dr.* SUNDRY CREDITS. *Cr.*					
Remitted.			Received.				Received.			Advised.		
£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
800	0	0	600	0	0	Principal Branch.	175	0	0	300	0	0
730	0	0	735	0	0	B.				50	0	0
						C.						
1,530	0	0	1,335	0	0		175	0	0	350	0	0

SUMMARY OF DAILY STATEMENT OF HEAD OFFICE ACCOUNT.

BRANCH.		*Dr.*			*Cr.*		
		£	s.	d.	£	s.	d.
Principal Branch	Totals from previous statement	463,826	4	3	224,300	8	6
	Sundry Debits remitted	1,530	0	0	—	0	0
	,, ,, received	—	0	0	1,335	0	0
	,, Credits received	175	0	0	—	0	0
	,, ,, remitted	—	0	0	350	0	0
	Cancelled Notes	200	0	0	—	0	0
	Balance	—	0	0	239,745	15	9
		465,731	4	3	465,731	4	3

Branch B makes out a similar statement, crediting Head Office £730 and debiting it £50.

Branch C debits Head Office £735.

Head Office, on receiving the statements, marks off each item as it is responded to. The items not marked off are extracted,

and represent debit and credit items in transit. Once a week the balance of the Head Office Account of each branch (as shown in the Weekly Statement sent to the Head Office) is entered in a book ruled as follows—

BRANCHES.	*Dr.*			*Cr.*		

WEEKLY STATEMENT No. _____

Week ended _____, 19 .

GENERAL LEDGER SUMMATIONS AND BALANCES.

SUMMATIONS.		ACCOUNTS.	BALANCES.	
Debit.	*Credit.*		*Debit.*	*Credit.*
		Cash		
		Bills Discounted		
		Outstanding Bills		
		Bills held for Collection		
		Sundry Persons for Bills received for Collection		
		Deposit Accounts		
		Current Accounts, viz.—		
		Credit Balances		
		Debit Balances		
		Bills Payable		
		Circular Notes		
		Loans		
		Stamp Account		
		Interest on Deposits		
		Rebate on Bills Discounted		
		Head Office Account		
		Profit and Loss Accounts (as detailed below)		
		Totals £		

DETAILS OF PROFIT AND LOSS ACCOUNTS.

SUMMATIONS.		ACCOUNTS.	BALANCES.	
Debit.	*Credit.*		*Debit.*	*Credit.*
		Discount		
		Premium		
		Interest on Overdrafts		
		Salaries		
		Rent		
		Stationery		
		Fuel and Lighting		
		Taxes		
		Postage, etc.		
		Totals carried above		

The statement also contains particulars of—

(*a*) The Cashier's charge;

(*b*) Bills debited to Outstanding (or overdue) Bills Account and payments received on account of Outstanding Bills;

(*c*) Advices received of Drafts on Demand issued;

(*d*) Drafts on Demand paid; and

(*e*) Expenditure and Revenue for the week.

Branches' Balances Book.

The balances as shown by the Weekly Statements are extracted into a book ruled thus—

ASSETS.

Branches.	Cash.	Bills Discounted.	Outstanding Bills.	Current Account: Debit Balances.	Loans.	Stamps.	Head Office.	Profit and Loss (Expenditure).

LIABILITIES.

Excess of "Sundry Persons for Bills received for Collection" over "Bills held for Collection."	Deposits.	Current Account: Credit Balances.	Bills Payable.	Interest on Deposits.	Head Office.	Profit and Loss (Revenue).

By combining these balances with the balances as disclosed by the Head Office Private Ledger and its own General Ledger, a Balance Sheet for the whole bank can at any time be prepared by the principal branch.

CHAPTER XXXV

PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

Accounts recording Income and Expenditure.

In the smaller branches, accounts recording income and expenditure are kept at the end of the General Ledger, into which they are posted from the Main Cash Book. (In this case, the Main Cash Book is so ruled as to provide for profit and loss accounts in a lower section, their totals—debit and credit—being brought into the upper section each day.)

In branches where the number of accounts is large, they are kept in a separate Profit and Loss Ledger and a subsidiary Expenses Ledger. The postings are made from the original dockets or from a book in which they are detailed. The Main Cash Book shows only the *total* debited and credited each day to Profit and Loss Accounts. (*See* page 364.)

Revenue Accounts.

1. Interest on Overdrafts.—(*See* p. 351.)
2. Interest on Loans.—(*See* p. 336.)
3. Discount on Bills.—(*See* p. 337.)

Any interest accrued due but not yet received, should be credited to the Interest Accounts and debited to "Income accrued due, but not yet payable."

The total of the Discount column in the Bills Discounted Register should agree with the total shown on the credit side of Discount Account in the Profit and Loss Ledger. Rebate (*see* p. 340) will appear on the debit side of this account.

4. Interest on Investments (*see* p. 324).—The interest received should be shown *gross*, and the Income Tax thereon debited to Income Tax Account. At the closing date, the interest accrued, but not yet payable, must be calculated and credited to Income from Investments Account[1] and shown as an asset in the Balance Sheet.

[1] The principal branch credits Head Office, and Head Office debits branches and credits this account.

(To effect this, an account called, say, INCOME ACCRUED DUE BUT NOT YET PAYABLE, should be opened in the General Ledger and debited with the amount.)

5. RENTS RECEIVABLE.—Rents received are credited to RENTS ACCOUNT. Rent accrued due, but not yet received at the closing date, must be credited to RENTS ACCOUNT and likewise shown as an asset. (Debit INCOME ACCRUED DUE BUT NOT YET PAYABLE.)

6. COMMISSION.—The charge made for keeping current accounts (*see* pp. 109 and 110) is debited to the customer at the close of the half-year, and credited to COMMISSION ACCOUNT.

Commission received on cheques and cash orders collected, on bills accepted on behalf of customers, and on drafts on demand issued is also credited to COMMISSION ACCOUNT.

7. TRANSFER FEES.—A fee of 2s. 6d. is commonly charged for registering a transfer of the bank's stock or shares. Sums so received are credited to TRANSFER FEES ACCOUNT.

8. PROFIT ON INVESTMENTS realised should be credited to RESERVE FOR DEPRECIATION OF INVESTMENTS in the Private Ledger.

Accounts recording Expenditure.

1. SALARIES OF STAFF.—A SALARIES BOOK is kept, which shows full details of the salary payable to and drawn by each clerk. The monthly total is debited to SALARIES ACCOUNT.

2. PENSIONS TO STAFF.—The principal branch pays the pensions, debiting HEAD OFFICE ACCOUNT therewith. Head Office credits BRANCHES ACCOUNT, and debits PENSIONS ACCOUNT in the Private Ledger. The Pension Fund is built up out of profits, or is contributed partly by profits and partly by the staff.

3. DIRECTORS' FEES are debited to an account of that name.

4. RENTS AND RATES are debited to RENT ACCOUNT and RATES ACCOUNT respectively.

5. COMPOSITION FOR STAMP DUTY ON NOTES AND POST BILLS. —A composition of 3s. 6d. per cent. on the average weekly circulation of notes and post bills is payable *half-yearly* to the Government by banks in England and Ireland, while the charge in

Scotland is 4s. 2d. per cent. COMPOSITION FOR STAMP DUTY ACCOUNT is debited.

6. PROVISION FOR INTEREST ON DEPOSITS.—(*See* p. 357.)

7. INTEREST ALLOWED ON CREDIT BALANCES.—(*See* "Current Accounts," p. 351.)

8. STATIONERY, FUEL, LIGHTING, POSTAGE, AND OTHER MISCELLANEOUS CHARGES can be analysed in a columnar EXPENSES LEDGER and debited in total to Profit and Loss.

9. INCOME TAX is calculated on the average of three years' profits, and debited to INCOME TAX ACCOUNT. When the accounts are made up every half-year, care must be taken *not* to charge the whole amount to one half-year. (*See* Charges Accrued Due but Unpaid, etc., below.) When the bank pays its dividend *less* tax, its expense under the head of Income Tax is reduced by the amount so deducted. No entry is usually made, however, in Income Tax Account, but the dividend is shown *net* as an appropriation of profit.

10. CHARGES ACCRUED DUE, BUT UNPAID AT THE DATE OF THE BALANCE SHEET.—The most important of these charges is Income Tax, which, although assessed in the first, is not paid till the second half-year. Half the tax must be debited to INCOME TAX ACCOUNT and credited to CHARGES ACCRUED DUE, BUT UNPAID (General Ledger). On 1st July, the latter account must be debited and INCOME TAX ACCOUNT credited. When the tax is paid, INCOME TAX ACCOUNT is debited with the full amount, and then shows the correct amount chargeable to the second half-year.

Interest on credit balances due to customers, if not credited to them at the periodical balance, must be debited to INTEREST ALLOWED ON CREDIT BALANCES and credited to CHARGES ACCRUED DUE BUT UNPAID. Rent and other charges due would be treated in a similar way.

11. WRITING DOWN OF INVESTMENTS OWING TO DEPRECIATION. —Should the amount standing to credit of the Reserve for Depreciation not be sufficient to reduce them to their market value at the date of the Balance Sheet, a further sum must be debited to PROFIT AND LOSS ACCOUNT and credited to RESERVE FOR DEPRECIATION OF INVESTMENTS ACCOUNT. The Reserve will not appear on the Balance Sheet, but will be deducted from the "Investments."

Transfer of Profits or Losses from the Branches to Head Office.

Every branch opens a SUMMARY PROFIT AND LOSS ACCOUNT, into which it collects all its revenue and expenditure accounts—thus closing them. Should this account show a profit, it is debited and HEAD OFFICE credited. Head Office debits BRANCHES ACCOUNT and credits the GENERAL PROFIT AND LOSS ACCOUNT. Where a branch makes a loss, all these entries are reversed.

Entries in the General Profit and Loss Account made by Head Office at the close of the Half-year.

1. GENERAL RESERVE, OR REST.—PROFIT AND LOSS ACCOUNT is debited and RESERVE ACCOUNT, or REST, credited (Private Ledger).

2. PREMISES RESERVE.—Debit PROFIT AND LOSS; credit PREMISES RESERVE (Private Ledger).

3. PROVISION FOR BAD AND DOUBTFUL DEBTS.—Debit PROFIT AND LOSS; credit PROVISION FOR BAD AND DOUBTFUL DEBTS (Private Ledger). (Bad debts are written off by the branch crediting the customer and debiting HEAD OFFICE. Head Office credits the branch, and debits PROVISION FOR BAD AND DOUBTFUL DEBTS ACCOUNT.)

4. DEPRECIATION OF LEASES OR BANK PREMISES.—Debit PROFIT AND LOSS ACCOUNT, and credit LEASE ACCOUNT or BANK PREMISES ACCOUNT (Private Ledger).

5. DIVIDEND.—Debit PROFIT AND LOSS ACCOUNT, and credit BRANCHES ACCOUNT with the net amount (*i.e.*, dividend, *less* tax). (Private Ledger.)

Principal branch debits HEAD OFFICE ACCOUNT, and credits DIVIDEND ACCOUNT in General Ledger.

6. BALANCE carried forward to next account.

Payment of Dividend.

The dividend warrants as paid are debited to DIVIDEND ACCOUNT. Should any warrants be outstanding at the date of the Balance Sheet, their amount would appear as a liability under the head of *Unclaimed Dividends.*

Profit and Loss Accounts.

Dr. DETAILED PROFIT AND LOSS ACCOUNT. *Cr.*

Expenditure.				*Revenue.*			
To Salaries				By Interest on Investments			
,, Directors' Fees				,, Interest on Short Loans			
,, Rent				,, Interest on Loans to Customers			
,, Rates				,, Interest on Overdrafts			
,, Stationery				,, Discount on Bills (*less* Rebate)			
,, Fuel				,, Commission			
,, Lighting				,, Rents Receivable			
,, Printing Office for Cost of Notes				,, Transfer Fees			
,, Postage							
,, Composition Stamp Duty							
,, Sundry Expenses							
,, Income Tax							
,, Interest allowed on Credit Balances							
,, Provision for Interest on Deposits							
,, Provision for Bad and Doubtful Debts							
,, Net Profit for half-year							
To Dividend for half-year ended—				By Net Profit brought down			
at rate of —%	£			,, Balance from last half-year			
Less Income Tax	£						
,, Reserve Fund							
,, Premises Reserve							
,, Pensions Fund							
,, Reserve for Depreciation of Investments							
,, Amount carried forward to next account							

Dr. FORM OF PUBLISHED PROFIT AND LOSS ACCOUNT. *Cr.*

To Dividend payable 1 Aug. 19..				By Balance from last account			
,, Reserve Fund				,, Net Profits for the half-year ending 30 June, 19.., after providing for Interest on Deposits, Income Tax, Composition Stamp Duty, Rebate on Bills discounted, and making provision for Bad and Doubtful Debts			
,, Premises Reserve							
,, Pensions Fund							
,, Reserve for Depreciation of Securities							
,, Amount carried forward to next account							

FORM OF PUBLISHED BALANCE SHEET

GENERAL BALANCE SHEET, 30TH JUNE, 19...

Liabilities.			*Assets.*		
To CAPITAL—			By CASH on hand and at Bank of England	£	
300,000 shares of £50 each £15,000,000			,, Money at Call and short notice	£	
,, Amount paid up, £10 per share on 300,000 shares	£		,, INVESTMENTS—		
,, RESERVE FUND	£		Consols, and other British Government Securities		
,, NOTES IN CIRCULATION	£		British Railway Debentures and Preference Stocks, and British Corporation Stocks		
,, CURRENT ACCOUNTS, Deposit Accounts, Drafts on Demand, and other accounts	£		Colonial and Foreign Government Stocks and Bonds		
,, ACCEPTANCES on behalf of Customers	£		Sundry Investments	£	
,, DIVIDEND for the half-year, *less* Income Tax	£		,, Bills Discounted	£	
,, Balance of Profit and Loss carried forward	£		,, ADVANCES on Current Accounts, Loans on Security, and other accounts	£	
			,, LIABILITIES OF CUSTOMERS for acceptances as *per contra*	£	
			,, BANK PREMISES at Head Office and Branches	£	
	£			£	

The Balance Sheet.

The Balance Sheet is compiled from the Private Ledger, the General Ledger at the Principal Branch, and the Balance Sheets sent up by the other branches. The items are first collected into a

DETAILED BALANCE SHEET.

Liabilities.			
To CAPITAL PAID UP per Private Ledger			£
„ RESERVE (or Rest) per Private Ledger			£
„ NOTES IN CIRCULATION per General Ledger		£	
Deduct Cancelled Notes in suspense and Bank's own Notes in hand		£	
			£
„ CURRENT, DEPOSIT, AND OTHER ACCOUNTS—			
Current Accounts—			
Current Accounts (Personal) *Cr.* Balances at Principal Branch per General Ledger	£		
Current Accounts (Personal) *Cr.* Balances at Branches per Branch Balance Sheets	£		
	£		
Other Banks *Cr.* Balances at Principal Branch per General Ledger	£		
		£	
Deposit Accounts—			
Deposit Accounts at Principal Branch per General Ledger	£		
Deposit Accounts at Branches per Branch Balance Sheets	£		
Deposit Interest at Principal Branch per General Ledger	£		
Deposit Interest at Branches per Branch Balance Sheets	£		
		£	
Drafts on Demand, Bills Payable, and Other Accounts—			
Bills Payable at Principal Branch per General Ledger	£		
Bills Payable at Branches per Branch Balance Sheets	£		
		£	
Circular Notes issued by Principal Branch per General Ledger	£		
Circular Notes issued by Branches per Braoch Balance Sheets	£		
		£	
[1]Customers' Bills matured and in course of Collection		£	
Exchange Room Account per General Ledger		£	
Sundry Credit Balances, including Sundry Charges accrued due, but unpaid		£	
Rebate on Bills per Bills Discounted Register		£	
Unclaimed Dividends per General Ledger		£	
Inner Reserves—			
Reserve for Bad and Doubtful Debts per Private Ledger		£	
Sundry Reserve Accounts per Private Ledger		£	
			£
„ ACCEPTANCES ON BEHALF OF CUSTOMERS as *per contra*			£
„ NET PROFIT for the half-year, after providing for Bad and Doubtful Debts		£	
Add Balance from last account		£	
		£	
Deduct Amount provided towards Depreciation of Investments		£	
			£
			£

[1] The excess of Sundry Persons for Bills Received for Collection Account over Bills held for Collection Account.

DETAILED BALANCE SHEET (as here shown), and, finally, summarised under a few commonly recognised headings in the Balance Sheet, which is issued to the shareholders and the general public. (*See* page 375.)

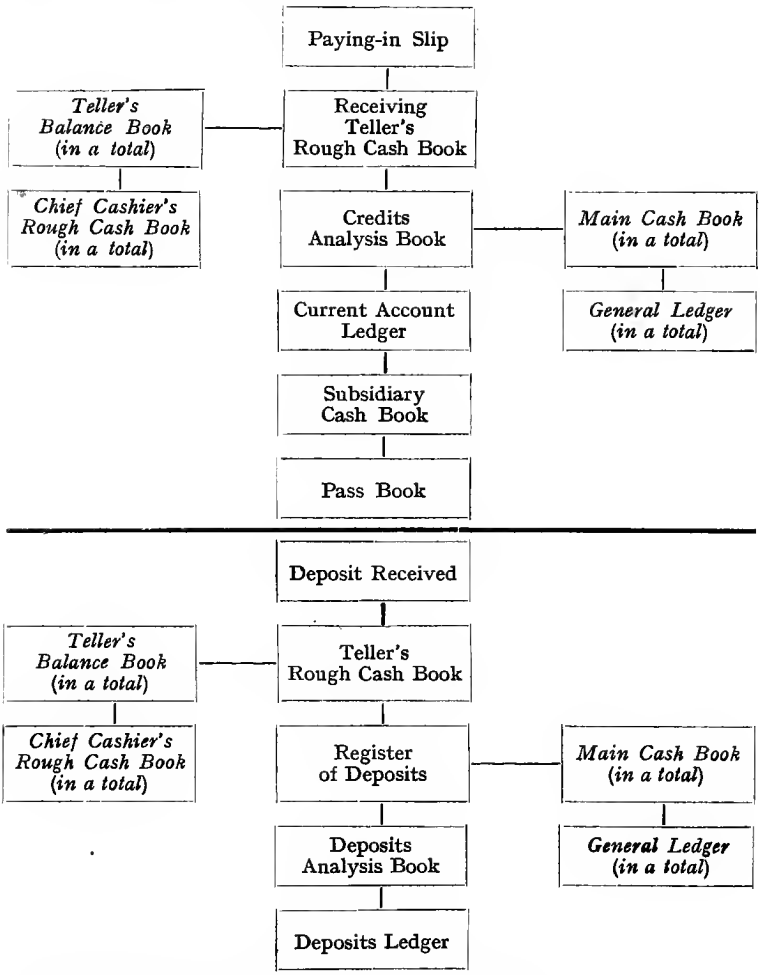
30TH JUNE, 19...

Assets.			
By CASH AT HEAD OFFICE, BRANCHES, AND BANK OF ENGLAND—			
Cash at Principal Branch per General Ledger	£		
Cash at Branches per Branch Balance Sheets	£		
	£		
Deduct own Notes in hand	£		
Cash at Bank of England per General Ledger		£	
Notes of other Banks in transit		£	
Exchange Room Account per General Ledger		£	
Sundry Stamps Accounts		£	
			£
„ CASH AT CALL AND SHORT NOTICE per General Ledger			£
„ INVESTMENTS (per Investments Ledger)—			
Government Stocks		£	
British Railway Debentures, English Corporation, and other first-class Stocks		£	
Indian and Colonial Stocks		£	
Sundry Investments		£	
			£
„ BILLS DISCOUNTED—			
At Principal Branch per General Ledger	£		
At Branches per Branch Balance Sheets	£		
	£		
Overdue Bills at Principal Branch per General Ledger	£		
Overdue Bills at Branches per Branch Balance Sheets	£	£	
			£
„ LOANS AND ADVANCES TO CUSTOMERS, AND OTHER ACCOUNTS—			
Current Account Debit Balances at Principal Branch per General Ledger	£		
Current Account Debit Balances at Branches per Branch Balance Sheets	£		
Other Banks' Debit Balances at Principal Branch per General Ledger	£		
		£	
Loans to Customers at Principal Branch per General Ledger	£		
Loans to Customers at Branches per Branch Balance Sheets	£		
		£	
Sundry Debits in transit		£	
Income accrued due, but not yet payable		£	
			£
„ ACCEPTANCES ON BEHALF OF CUSTOMERS as *per contra* per General Ledger			£
BANK PREMISES per Private Ledger			£
			£

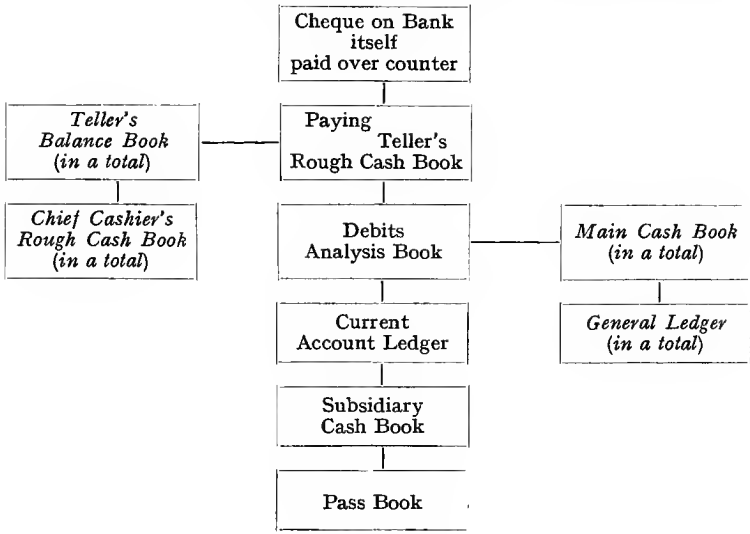
CHAPTER XXXVI

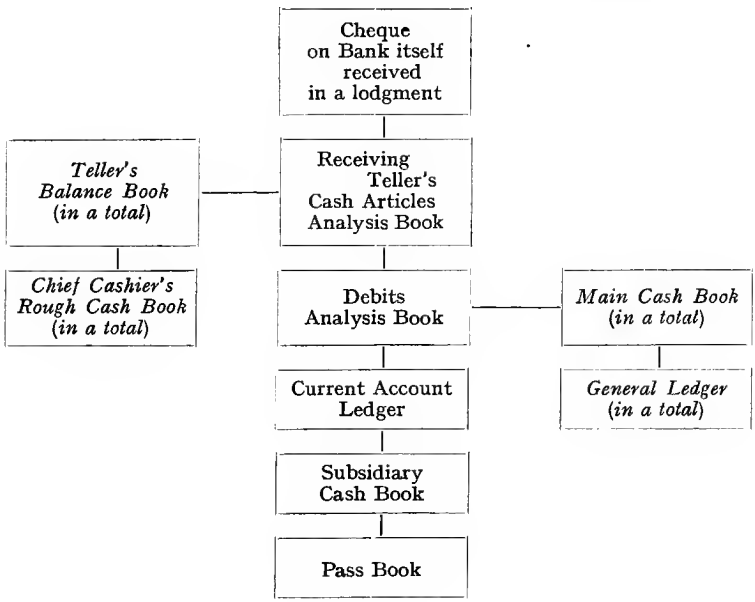
SOME OF THE PRINCIPAL BANKING INSTRUMENTS TRACED THROUGH THE BOOKS

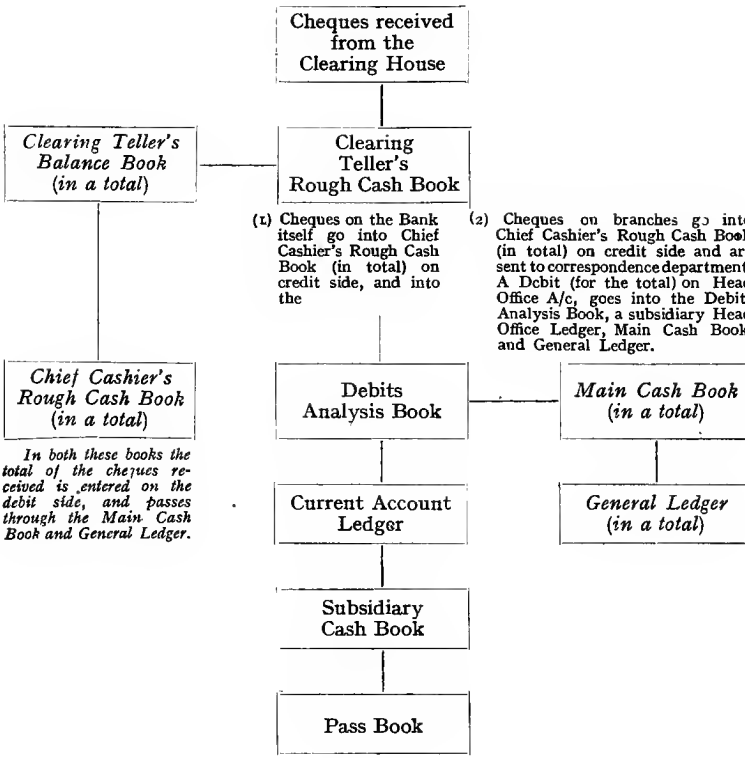
ENTRIES made directly from the documents are shown in Roman type; indirect entries in *italics*.


Paying-in Slip
Teller's Balance Book (in a total)
Receiving Teller's Rough Cash Book
Chief Cashier's Rough Cash Book (in a total)
Credits Analysis Book
Main Cash Book (in a total)
Current Account Ledger
General Ledger (in a total)
Subsidiary Cash Book
Pass Book
Deposit Received
Teller's Balance Book (in a total)
Teller's Rough Cash Book
Chief Cashier's Rough Cash Book (in a total)
Register of Deposits
Main Cash Book (in a total)
Deposits Analysis Book
General Ledger (in a total)
Deposits Ledger

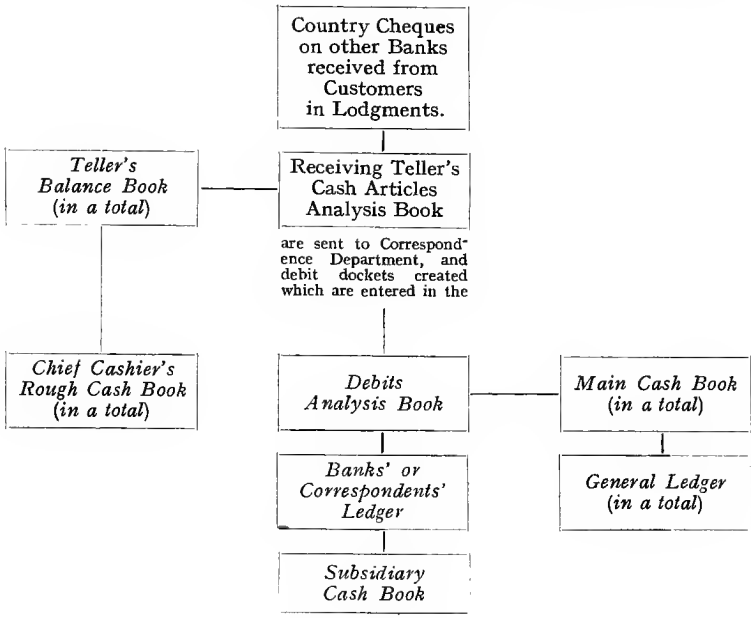
Deposit Paid passes through the same books.

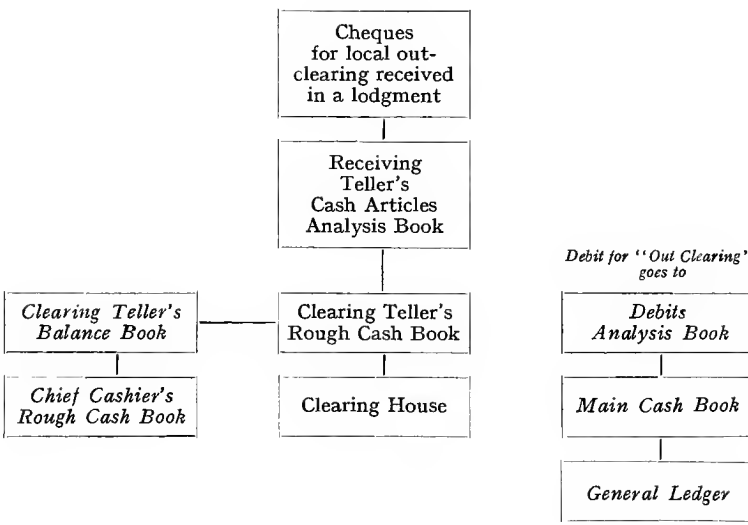

Cheque on Bank itself paid over counter
Paying Teller's Rough Cash Book
Teller's Balance Book (in a total)
Chief Cashier's Rough Cash Book (in a total)
Debits Analysis Book
Main Cash Book (in a total)
General Ledger (in a total)
Current Account Ledger
Subsidiary Cash Book
Pass Book

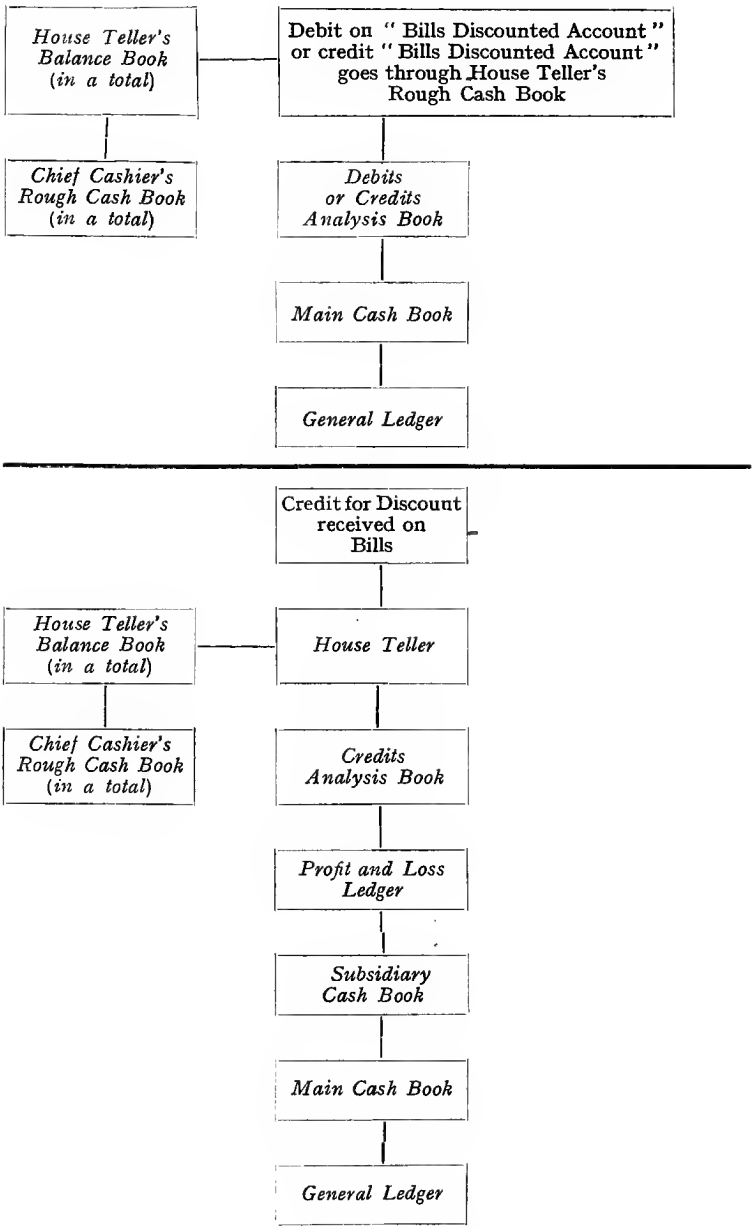

Cheque on Bank itself received in a lodgment
Receiving Teller's Cash Articles Analysis Book
Teller's Balance Book (in a total)
Chief Cashier's Rough Cash Book (in a total)
Debits Analysis Book
Main Cash Book (in a total)
General Ledger (in a total)
Current Account Ledger
Subsidiary Cash Book
Pass Book


Cheques received from the Clearing House
Clearing Teller's Balance Book (in a total)
Clearing Teller's Rough Cash Book
(1) Cheques on the Bank itself go into Chief Cashier's Rough Cash Book (in total) on credit side, and into the
(2) Cheques on branches go into Chief Cashier's Rough Cash Book (in total) on credit side and are sent to correspondence department. A Debit (for the total) on Head Office A/c, goes into the Debits Analysis Book, a subsidiary Head Office Ledger, Main Cash Book, and General Ledger.
Chief Cashier's Rough Cash Book (in a total)
In both these books the total of the cheques received is entered on the debit side, and passes through the Main Cash Book and General Ledger.
Debits Analysis Book
Main Cash Book (in a total)
Current Account Ledger
General Ledger (in a total)
Subsidiary Cash Book
Pass Book

Cheques on Branches received in a lodgment are entered similarly to No. 2 above, except that, of course, they first pass through the Receiving Teller's Rough Cash Book.


Country Cheques on other Banks received from Customers in Lodgments.
Teller's Balance Book (in a total)
Receiving Teller's Cash Articles Analysis Book
are sent to Correspondence Department, and debit dockets created which are entered in the
Chief Cashier's Rough Cash Book (in a total)
Debits Analysis Book
Main Cash Book (in a total)
Banks' or Correspondents' Ledger
General Ledger (in a total)
Subsidiary Cash Book


Cheques for local out-clearing received in a lodgment
Receiving Teller's Cash Articles Analysis Book
Debit for "Out Clearing" goes to
Clearing Teller's Balance Book
Clearing Teller's Rough Cash Book
Debits Analysis Book
Chief Cashier's Rough Cash Book
Clearing House
Main Cash Book
General Ledger


House Teller's Balance Book (in a total)
Debit on "Bills Discounted Account" or credit "Bills Discounted Account" goes through House Teller's Rough Cash Book
Chief Cashier's Rough Cash Book (in a total)
Debits or Credits Analysis Book
Main Cash Book
General Ledger
Credit for Discount received on Bills
House Teller's Balance Book (in a total)
House Teller
Chief Cashier's Rough Cash Book (in a total)
Credits Analysis Book
Profit and Loss Ledger
Subsidiary Cash Book
Main Cash Book
General Ledger

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